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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

COMPLETED

Strong Leadership Needed To Improve Management At The Department Of Labor

ORIGINAL

This is one in a series of GAO reports evaluating management effectiveness at major cabinet-level departments and agencies. The last 5 years have been a period of significant change for the Department of Labor. Several of Labor's missions have been redefined or refocused; its budget and work force have been substantially reduced; and key constituent groups have questioned the effectiveness of some of its major programs.

Labor has taken several positive steps to address its management problems. However, Labor needs stronger leadership to more effectively address them and improve its performance and image. It also needs to strengthen management of its work force and financial operations.

Soon after taking office, Secretary Brock acted to address the management problems GAO identified and demonstrated the degree of commitment and support GAO believes is essential to improve Labor's management.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the need for stronger leadership at the Department of Labor and is one of a series GAO is issuing on the management of major departments and agencies. Our purpose was to assess Labor's management, analyze problems and determine their underlying causes, and recommend actions to improve operations.

On June 13, 1985, we briefed Secretary Brock on the results of our work and the actions we believed necessary to increase program effectiveness through better management. The Secretary agreed with most of our recommendations and acted promptly to address them. In addition to discussing specific actions the Department can take to improve management, the report points out actions the Congress could take to improve and sustain sound management at Labor.

We are sending copies of this report to the Secretary of Labor; the Director, Office of Management and Budget; and interested congressional committees, subcommittees, and individual members.

Charles A. Bowsher

Comptroller General
of the United States

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EXECUTIVE SUMMARY

Effective implementation of policy initiatives depends on well-managed programs. Too often the government focuses on policy issues rather than the management structure and systems needed to effectively implement policies. GAO has undertaken several broad reviews to focus on management. This report on the Department of Labor is one in a series GAO is issuing on major cabinet-level departments and agencies.

By focusing on the Department's major missions and relating managerial problems to programs and the needs of top officials, GAO sought to demonstrate how management could be improved to avoid crises by identifying and handling emerging issues; minimize vulnerability by implementing and controlling management systems for efficient and effective program delivery; and operate financial, procurement, and automated data processing systems in a business-like way.

BACKGROUND

The Labor Department administers more than 130 laws to promote and develop the welfare of wage earners, their working conditions, and their opportunities for profitable employment. Outlays for fiscal year 1985 were estimated at about $23.5 billion, of which $18.3 billion will be spent on the nation's unemployment insurance program.

Labor is a conglomerate of largely independent agencies. According to former Labor officials, Secretaries have generally focused on external matters rather than on managing the Department's programs. There has been a high turnover rate of political appointees in top program management positions (about every 26 months). Also, over 80 percent of Labor's expenditures are managed at the state and local levels.

The last 5 years have been a time of major change at the Department. Federal regulatory approaches have shifted, and greater reliance is being placed on state governments and the private sector to operate Labor's programs. Labor has had significant funding and staff decreases. These changes have caused some management problems.

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EXECUTIVE SUMMARY

To identify key issues and problems, GAO sent a questionnaire to program managers in headquarters and four regional offices. GAO also reviewed selected program activities, talked to interest groups and experts that knew about the Department, and reviewed seven functional areas department-wide: planning and budgeting, personnel, productivity, procurement, financial management, information resources management, and audit, review, and evaluation. In addition, earlier reports on Labor by GAO and others were reviewed.

RESULTS IN BRIEF

Labor needs strong Secretarial leadership.

GAO briefed Secretary Brock on June 13, 1985, about 1 month after he became Secretary, regarding management problems, their causes, and possible solutions. The Secretary acted quickly, calling upon agency officials to develop an action plan to deal with the problems. On July 25, 1985, he received a detailed action plan to begin addressing the problems.

Those problems involved (1) limited management planning and control that have reduced Labor's ability to identify and address emerging issues and problems and identify program activities that could be vulnerable to fraud and waste; (2) limited attention to enhancing work force quality and efficiency, resulting in staffing needs often not being identified and managers not always being held accountable; and (3) lack of strong Secretarial support for management systems, resulting in component agencies operating administrative support systems that do not always adhere to central policies or give the Secretary sufficient information to manage operations.

PRINCIPAL FINDINGS

Following are the major findings presented to Secretary Brock on June 13.

Stronger Direction

Labor had no systematic department-wide long-range policy planning process. As a result, the Department generally operated in a reactive rather than a proactive mode. Some long-standing problem areas that could have benefited from long-term planning include: (1) determining how best to use Labor's 200 investigators to achieve

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a credible enforcement program covering over 900,000 pension plans, (2) reducing the lengthy time involved in issuing regulations, and (3) integrating acquisition and use of automated data processing resources without unduly constraining component operations.

In addition, the Secretary generally did not identify key priorities or systematically track progress. Labor's process resulted in more than 300 agency-generated objectives, of which about 90 were categorized as critical. The large number of objectives--critical and other--made it difficult to determine what was really important, track progress, and hold managers accountable. However, where the Secretary did identify his priorities, such as implementing the Job Training Partnership Act quickly and shifting Labor's approach to enforcement, results were achieved.

Better Control

GAO's analysis of Labor's control and oversight mechanisms showed that (1) information systems did not always provide sufficient data on mission attainment; (2) monitoring of programs primarily operated at the state and local levels may not be identifying vulnerable areas; and (3) audits, reviews, and evaluations were often not perceived by program managers as identifying and resolving problems.

Enhance Work-Force Management

Labor has had nine reductions-in-force since 1982. A key goal was to dismiss as few people as possible. This was achieved, but at a cost. Some inexperienced people were placed in jobs with subsequent losses in efficiency in some program units, low staff morale, and possible long-term problems in filling managerial positions. The adverse effect of these reductions might have been lessened if Labor had better identified and planned for long-term staffing needs.

Also, Labor's training and management development programs lacked credibility among many program managers, and significant variations existed among agencies in the awards given for outstanding performance, in actions to improve poor performance, and in demotions and removals based on poor performance.

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Improve Support Functions	Labor has not operated key support functions--financial management, automatic data processing, procurement, and productivity improvement--as effectively or efficiently as possible. This is largely due to components' not adhering to central policies. For example, a 1979 Department-wide policy to improve productivity was adopted, but little systematic action has resulted. Improved productivity at Labor is especially important since the Department is carrying out its mission with fewer resources. Also, funding limitations have often been exceeded by component agencies, raising the potential for Anti-Deficiency Act violations.
RECOMMENDATIONS	GAO is recommending a series of actions to the Secretary of Labor to deal with specific management problems. Broader recommendations--such as designating a key official above the assistant secretary level to focus on management--involve strengthening Secretarial direction, tracking, and support systems to hold managers accountable. The Congress could facilitate improvements by reaching agreement with the Secretary on key management issues to be addressed and ways to measure progress through periodic oversight efforts.
AGENCY COMMENTS	The Secretary agreed with the need to strengthen leadership and improve management and with almost all GAO's major recommendations. He described many improvements that have been made and that are planned or underway. Among the actions the Secretary said the Department would take are (1) articulating long-term goals, (2) developing and implementing an effective system for initiating and for managing Secretarial initiatives and goals, and (3) designating the Under Secretary to handle day-to-day management on his behalf. Labor did not fully agree with GAO on the need to improve implementation of the Federal Managers' Financial Integrity Act for programs operated at the state and/or local levels. GAO continues to believe Labor needs to improve in this area. (See pp. 94 and 104.)

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Contents

		Page
EXECUTIVE SUMMARY		i
SECTION		
1	INTRODUCTION	1
	GAO objectives	2
	GAO scope and methodology	4
	Labor environment: varied missions and interests to serve	8
	Key actions needed	18
2	STRENGTHEN SECRETARIAL DIRECTION	22
	Increase Secretarial emphasis on management	23
	Improve departmental long-range policy planning process	26
	Set clear priorities for key objectives	28
	Improve tracking of key objectives	29
	Show more concern for the Department's work force	30
	Designate an official above the assistant secretary level to focus on management	31
	Recommendations to the Secretary of Labor	31
	Agency comments and our evaluation	32
	Matters for consideration by the Congress	33
	Emphasize correction of long-standing problems	34
	Improve ERISA enforcement	36
	Actions recommended, agency comments, and our evaluation	41
	Expedite rulemaking	42
	Recommendations to the Secretary of Labor	47
	Agency comments and our evaluation	47
	Enhance the procurement system	48
	Recommendations to the Secretary of Labor	59
	Agency comments and our evaluation	60
	Upgrade information resources management	62
	Recommendations to the Secretary of Labor	73
	Agency comments and our evaluation	73

BEST COPY AVAILABLE

SECTION		Page
3	AVOID CRISES AND CREDIBILITY PROBLEMS THROUGH BETTER CONTROL	74
	Eliminate MSHA inspection shortfall	76
	Recommendations to the Secretary of Labor	83
	Agency comments and our evaluation	84
	Improve JTPA oversight	86
	Recommendations to the Secretary of Labor	93
	Agency comments and our evaluation	94
	Enhance UI oversight	96
	Recommendations to the Secretary of Labor	103
	Agency comments and our evaluation	103
	Assess usefulness of audits, reviews, and evaluations	106
	Recommendations to the Secretary of Labor	111
	Agency comments and our evaluation	112
4	ENHANCE DEPARTMENT WORK-FORCE QUALITY AND EFFICIENCY	114
	Expand staffing needs identification and planning	116
	Recommendations to the Secretary of Labor	132
	Agency comments and our evaluation	133
	Address variations in the use of performance incentives	133
	Recommendations to the Secretary of Labor	143
	Agency comments and our evaluation	143
	Implement a more systematic effort to measure and improve productivity	144
	Recommendations to the Secretary of Labor	158
	Agency comments and our evaluation	159
5	OPERATE IN A MORE BUSINESS-LIKE MANNER	160
	Better control funds	163
	Recommendations to the Secretary of Labor	170
	Agency comments and our evaluation	171
	Improve financial reporting	171
	Recommendations to the Secretary of Labor	175
	Agency comments and our evaluation	176

BEST COPY AVAILABLE

SECTION		Page
	Better control financial improvement projects	176
	Recommendations to the Secretary of Labor	181
	Agency comments and our evaluation	181
	Enhance FIA accounting system review effort	182
	Recommendations to the Secretary of Labor	184
	Agency comments and our evaluation	184
	Improve accounting for personal property	184
	Recommendations to the Secretary of Labor	186
	Agency comments and our evaluation	186
APPENDIX		
I	Letter dated September 26, 1985, from the Secretary of Labor	187
Table		
2.1	Number of regulations issued, 10/1/81 to 5/7/85	44
2.2	Number of regulations in process as of 5/7/85	44
2.3	Department of Labor FY 1984 contract expenditures	49
2.4	Contract files reviewed by GAO	50
3.1	Types of metal/nonmetal mines in operation	77
3.2	Labor's evaluation activity	110
4.1	Ratio of outstanding ratings to total GM employee populations by total agency and by national office	141
4.2	Productivity indexes for three programs for 1979-83	149
5.1	Number of deficit limitation balances on Labor's daily Status of Funds report during 4 months ended September 30, 1984	167

BEST COPY AVAILABLE

Figure		Page
1.1	Department of Labor organization chart	10
1.2	Department of Labor outlays and staffing FY 1980-85	14
1.3	Top Labor officials and major agencies' FY 1985 staffing and outlays	15
3.1	Metal/Nonmetal surface mines actual and estimated required inspections	78
3.2	Metal/Nonmetal field employment, fiscal year end 1980-1984	80
3.3	Managers who believe audits, reviews and evaluations identify problems	108
3.4	Managers who believe audits, reviews and evaluations resolve problems	108
4.1	Managers of units affected by RIF who believe RIFs decreased the efficiency and effectiveness of their units	119
4.2	Extent to which managers believe that the staffing process is timely in filling vacancies	125
4.3	Extent to which managers believe that supervisory training is effective	128
4.4	Extent to which managers believe that training for professional staff is effective	129
4.5	Extent to which managers believe that the SES program identifies individuals for selection and assesses their performance	130
4.6	Awards and outstanding ratings distributions for GS employees in selected national offices and regions during FY 1984	135
4.7	Outstanding ratings and dollars budgeted for awards for selected national offices and regional units	136

BEST COPY AVAILABLE

Figure		Page
4.8	Distribution of outstanding ratings for GM and GS employees in agency national offices	137
4.9	Adverse personnel actions, performance-based and misconduct-based	138
4.10	Levels of managerial confidence in capability of Labor's performance appraisal systems to adequately reflect performance	140
4.11	Changes in productivity, selected Labor agencies	148
4.12	Occupational Safety and Health, 1983 productivity level	150
4.13	Occupational Safety and Health, range in area office productivity	151

ABBREVIATIONS

ADP	automated data processing
BLS	Bureau of Labor Statistics
CETA	Comprehensive Employment and Training Act
DIRM	Directorate of Information Resources Management
ERISA	Employee Retirement Income Security Act
ESA	Employment Standards Administration
ETA	Employment and Training Administration
FIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
GM	General Management
GS	General Schedule
GSA	General Services Administration
IAS	Integrated Accounting System
IRM	information resources management

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JTPA	Job Training Partnership Act
LMSA	Labor-Management Services Administration
MSHA	Mine Safety and Health Administration
NCSC	National Capital Service Center
OASAM	Office of the Assistant Secretary for Administration and Management
OFPS	Office of Financial Policy and Systems
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OPWBP	Office of Pension and Welfare Benefit Programs
OSHA	Occupational Safety and Health Administration
PIP	Performance Improvement Plan
RIF	reduction-in-force
SES	Senior Executive Service
UI	Unemployment Insurance

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THE ISSUES PRESENTED TO SECRETARY BROCK
ON JUNE 13, 1985, ARE CONTAINED
IN THE BOXED PAGES OF THIS REPORT.
EXPANDED DISCUSSION OF EACH ISSUE FOLLOWS.

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SECTION 1: INTRODUCTION

- o GAO objectives
- o GAO scope and methodology
- o Labor environment: varied missions and interests to serve
- o Key actions needed

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GAO
OBJECTIVES

Assess how well Labor was organized and managed to:

- Avoid crisis management by identifying and handling emerging issues.
- Minimize vulnerability to mismanagement by implementing systems for efficient and effective program delivery.
- Provide business-like functional support systems, such as financial management, procurement, and ADP.

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GAO OBJECTIVES

The overall objective of our management review was to conduct a department-wide assessment of management systems and administrative support functions and develop specific recommendations showing how top management can bring about and sustain needed improvements. Our specific objectives were to:

(1) Assess Labor's organization and systems for identifying and resolving emerging issues. We were primarily concerned with forward planning processes, such as (1) the budget, which is an advance plan of operations, and (2) long-range policy development and planning, which would be conducted at higher management levels, include a larger range of options, and cover a longer period.

(2) Assess activities and systems that were designed to minimize vulnerability to mismanagement and provide top managers with current and reliable information on operations. Such information is a fundamental management tool for effective internal control. Among the information sources we looked at were Inspector General reports and other internal evaluations of operations, such as those required by the Financial Integrity Act.

(3) Determine whether the Department has managed its administrative support systems to provide timely and accurate financial data for control over appropriated funds and other services necessary for effective program delivery. In this area we were concerned with the interrelationships between administrative support systems and program delivery. We also looked at management initiatives designed to strengthen the support systems.

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GAO SCOPE AND METHODOLOGY

- Administered questionnaire to 183 program managers.
- Assessed seven functional areas.
- Covered major operating agencies.
- Examined selected program activities.
- Surveyed customers and outside experts.

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GAO SCOPE AND METHODOLOGY

Administered questionnaire to Labor managers

We sent a questionnaire to 183 program managers--89 in headquarters and 94 in four regional offices (Atlanta, Chicago, Dallas, and San Francisco). We received 180 responses, for a 98-percent response rate.

In addition, we sent the questionnaire to 30 managers in administrative and support functions: Office of Assistant Secretary for Administration and Management (OASAM), Office of the Solicitor (SOL), and Office of the Inspector General (OIG). Fourteen of these officials were at headquarters, and 16 were in the regions. We received 26 responses. Therefore, in total we sent out 213 questionnaires and received 206 responses, for a 97-percent response rate.

The Department officials surveyed were identified through a cooperative effort between our staff and designated officials in eight major Labor agencies. The Assistant Secretary for Administration and Management reviewed the list of officials identified.

Assessed seven functional areas

The questionnaire addressed seven important functional areas of a department's operations, namely (1) general management, such as planning and budgeting, (2) personnel, (3) productivity, (4) financial management, (5) procurement, (6) information resources management, and (7) audit, review, and evaluation. To obtain more detailed information on each functional area and agency, we conducted structured follow-up interviews with many Labor officials.

Covered major operating agencies

Our review included Labor's eight major program agencies--the Employment and Training Administration (ETA), Employment Standards Administration (ESA), Labor Management Services Administration (LMSA), Occupational Safety and Health Administration (OSHA), Mine Safety and Health Administration (MSHA), Bureau of Labor Statistics (BLS), Women's Bureau, and Veterans' Employment and Training. During our review, LMSA was abolished and three new components were established. These were the Office of Pension and Welfare Benefit Programs (OPWBP), Office of Labor-Management Standards, and Bureau of Labor-Management Relations and Cooperative Programs.

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Examined selected program activities

In examining selected program activities, we:

--Developed case studies to demonstrate the impact of certain actions on different organizational units, such as reduction-in-force (RIF) efforts (ETA, ESA, LMSA, and MSHA) and changes in enforcement efforts (MSHA and OSHA).

--Reviewed data collected by Labor to help manage its programs, such as financial and other information, to form opinions on their usefulness and to determine where improvements can be made (ESA, MSHA, and OSHA).

--Reviewed how Labor plans for and implements new policies and procedures and monitors such changes to determine their effectiveness and areas needing improvement (ETA, ESA, OSHA, MSHA, Pensions).

--Reviewed some specific contracts to assess procurement operations (ETA and OASAM).

--Interviewed Labor officials to identify and determine the effectiveness of mechanisms used to monitor the Job Training Partnership Act (JTPA) and Unemployment Insurance (UI) programs since most of Labor's funds are spent for these two programs.

--Interviewed a judgmentally selected sample of 175 journeymen-level employees located in field offices (ESA, OSHA, MSHA, BLS, SOL, ETA) within four of Labor's regions. These interviews were designed to obtain employee views on selected personnel and productivity issues. Of the 175 employees interviewed, we administered a questionnaire to 127 in ESA, MSHA, and OSHA.

--Reviewed reports issued by GAO and others during the last several years on Labor activities and programs.

In reviewing many of the program and administrative activities, we obtained automated information from Labor. However, due to time constraints and limited staff resources, we did not verify the accuracy of this information. With this exception, we performed the review in accordance with generally accepted government audit standards. Our work was done between May 1984 and May 1985, ending shortly before Mr. Brock became Secretary.

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Surveyed customers and outside experts

We surveyed interest groups and individuals that knew about and were involved with Labor Department program activities to obtain their perceptions on how effective the Department has been in managing these activities and where and what improvements can be made. Specifically, we:

--Obtained information from 15 business and Labor organizations, such as the National Alliance of Business and United Mine Workers of America, through interviews with officials of these organizations.

--Compiled information from six Labor Department advisory committees, which are composed of representatives from the private, public, and federal sectors.

--Obtained information from correspondence written to the Secretaries and Under Secretaries about issues regarding the Department.

--Discussed Labor Department management with former Labor officials, including four former Under Secretaries.

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LABOR ENVIRONMENT: VARIED MISSIONS AND INTERESTS TO SERVE

- A conglomerate of independent agencies.
- Dilemmas posed by trying to serve conflicting interests.
- Dramatic shift in philosophical approach.
  - --Large staff and budget cutbacks
  - --Shared responsibility with states
  - --Enforcement

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LABOR ENVIRONMENT: VARIED MISSIONS AND INTERESTS TO SERVE

In 1884, the Congress created a Bureau of Labor within the Department of the Interior to collect information on working people. After several legislated reorganizations, the Department of Labor was established as a cabinet-level department by the Congress on March 4, 1913. Over the past 100 years the Congress has enacted more than 130 labor laws broadening Labor's mission to protect the welfare of wage earners, improve their working conditions, and advance their employment opportunities. The Secretary of Labor is the head of the Department and the principal adviser to the President in developing and executing policies and administering and enforcing labor laws.

A conglomerate of independent agencies

Labor has traditionally operated as a group of independent components, each carrying out its programmatic mission largely independently with limited central direction and control. (See figure 1.1 for Labor's current organizational alignment.) The components' independent character has been a key element of Labor's organizational "culture" for many years. This culture remains strong and has sometimes constrained the Department from fully carrying out Office of Management and Budget (OMB)-sponsored initiatives aimed at centralizing certain administrative functions to achieve cost savings and from effectively carrying out congressionally mandated administrative activities.

For example, at the headquarters level, most of the larger components have provided many of their own administrative services--such as budget formulation, personnel, and computer operations--with only policy guidance and some support from OASAM. OASAM, on the other hand, provided many of these services for smaller component agencies at the headquarters level and most of these services at the regional office level. Under OMB's direction, Labor has recently begun to centralize more administrative functions, such as procurement, at the headquarters level as a cost-saving measure. This centralization effort, however, has been resisted by some components, such as MSHA, which retained its own procurement operations. Labor also proposed consolidating personnel operations but, after meeting stiff resistance from components, took a less comprehensive approach. The constraints posed by the organization's culture are further illustrated by Labor's slowness, caused partly by component independence, in implementing the requirements of the Paperwork Reduction Act of 1980 relating to greater central oversight of computer acquisition. (We are not advocating complete centralization of administrative functions, but are illustrating the environment in which the Secretary operates.)

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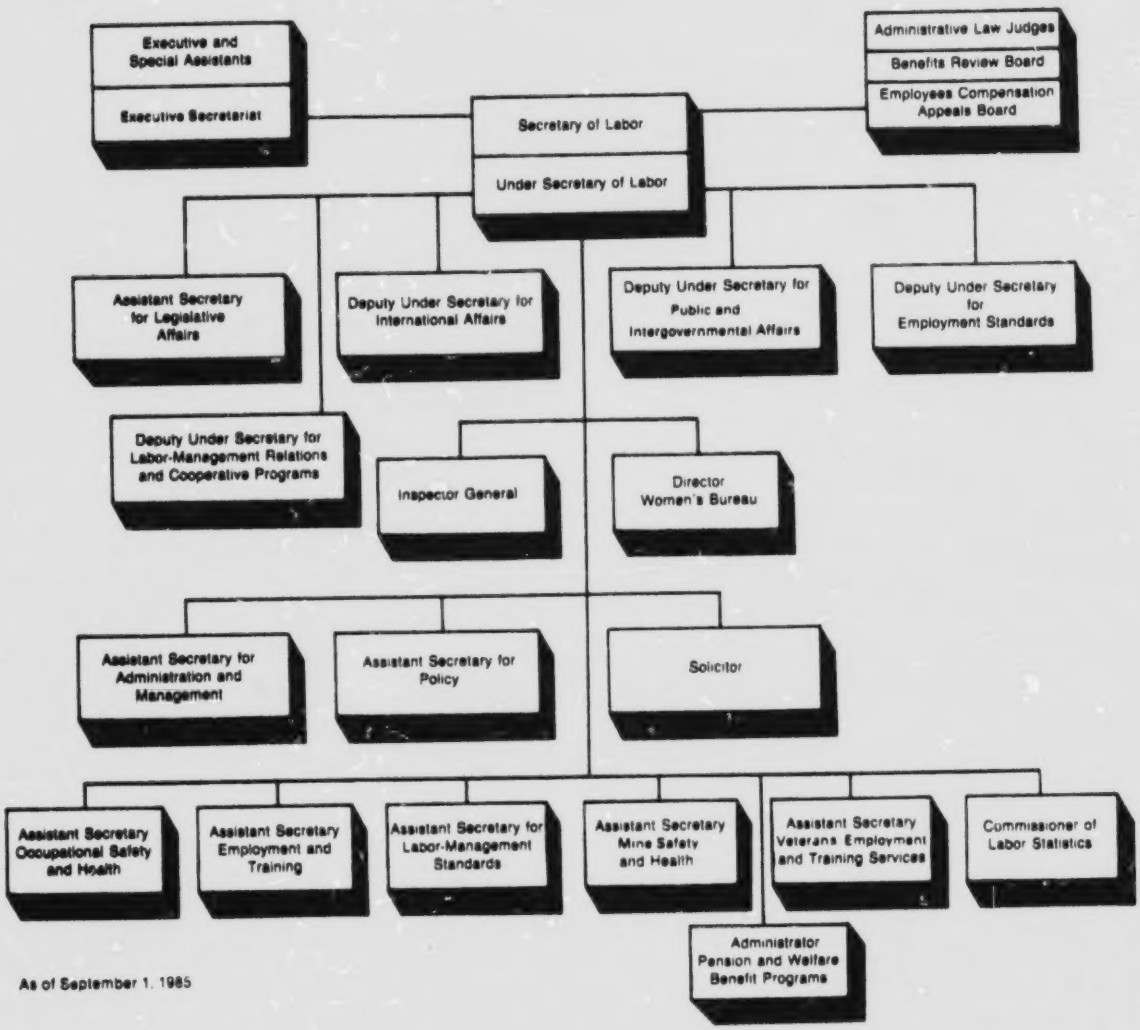
Figure 1.1: Department of Labor Organization Chart


Executive and Special Assistants
Executive Secretariat
Secretary of Labor
Under Secretary of Labor
Administrative Law Judges
Benefits Review Board
Employees Compensation Appeals Board
Assistant Secretary for Legislative Affairs
Deputy Under Secretary for International Affairs
Deputy Under Secretary for Public and Intergovernmental Affairs
Deputy Under Secretary for Employment Standards
Deputy Under Secretary for Labor-Management Relations and Cooperative Programs
Inspector General
Director Women's Bureau
Assistant Secretary for Administration and Management
Assistant Secretary for Policy
Solicitor
Assistant Secretary Occupational Safety and Health
Assistant Secretary Employment and Training
Assistant Secretary for Labor-Management Standards
Assistant Secretary Mine Safety and Health
Assistant Secretary Veterans Employment and Training Services
Commissioner of Labor Statistics
Administrator Pension and Welfare Benefit Programs

As of September 1, 1985

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Dilemmas posed by trying
to serve conflicting interests

The Secretary faces many situations in which his decisions or actions are heavily influenced by outside groups, such as the Congress, central agencies (OMB, the General Services Administration (GSA), and the Office of Personnel Management (OPM)), and the courts. Sometimes, these groups' interests are different from or inconsistent with the Department's.

Foremost among the external interrelationships involves the Congress. Various congressional committees and subcommittees have policymaking, fiscal, and oversight responsibilities for Labor programs. Among the most important are the Senate Committee on Labor and Human Resources and the House Committee on Education and Labor, which are responsible for most labor legislation, and the Senate and House Budget and Appropriations Committees, which are responsible for the Department's funding.

Other committees, however, can also significantly affect the Department, such as the House Committee on Government Operations and the Senate Committee on Governmental Affairs. For example, the Senate Committee's investigations of unions in the 1950's led to enactment in 1959 of the Landrum-Griffin Labor-Management Reporting and Disclosure Act, under which the Department now regulates how unions operate. In 1974, the Senate and House labor committees joined with the Senate Finance Committee, the House Ways and Means Committee, and the Joint Committee on Taxation to sponsor passage of the Employee Retirement Income Security Act (ERISA), which greatly strengthened Labor's enforcement capability over private pension and welfare benefit plans.

Each committee has its own jurisdiction and operates according to its own priorities and interests, procedures, and timetables. Actions taken or considered by the committees are not always coordinated or in concert with what the administration or the Department desires. For example:

--In 1982, MSHA sought, but the Congress did not pass, legislation to give it more flexibility in determining the frequency with which surface mines should be inspected.

--The Congress has not gone along with administration proposals to terminate some key programs, such as Job Corps and Work Incentive.

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--Responding to congressional concern over the effect on local service delivery, Labor recently withdrew a proposal to consolidate some of its regional offices.

Another factor significantly affecting Secretarial discretion relates to the lack of complete control and flexibility over the acquisition and allocation of departmental resources. OMB directs and controls the development of the President's annual budget. Budget formulation guidelines from OMB establish the Department's annual spending and personnel ceilings, and the Department's budget is submitted to OMB for its review and incorporation into the President's budget. According to Labor officials, certain decisions, such as to propose termination of key programs, are sometimes made at higher levels within the administration. Also, in a practical sense, the Secretary's flexibility in making significant shifts in funding or staffing among various program units is constrained by the expected opposition by client groups or the Congress.

A further constraint on the Secretary's discretion is the entitlement nature of a few programs that constitute the bulk--over 80 percent--of the Department's funding. For example, all persons who meet UI or Black Lung eligibility requirements are entitled to receive benefits, and funds must be provided for them.

Carrying out policies, initiatives, or "suggestions" by central agencies also affects the Secretary's discretion. For example:

--Labor has been reviewing its procurement staff positions to determine the appropriateness of grade levels in concert with government-wide efforts to apply the new contracting series, GS-1102 position classification standards. Concurrently, another government-wide effort exists to enhance the skills, qualifications, and professionalism of the procurement work force. Labor may run into difficulties meeting these two possibly inconsistent objectives.

--Labor recently adopted a new personnel system used by the Air Force as part of an OMB initiative to reduce the number of new systems that have to be developed. OMB's objective, which was laudable, was to effect savings by having agencies use suitable systems already developed rather than having to design and develop their own. In this case, however, the Air Force's system required computer equipment that was not compatible with Labor's,

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resulting in additional costs and risks that could have been avoided with a compatible system.

The Department's ability to carry out its missions is also affected by other federal agencies with which Labor shares responsibility. For example, under ERISA, Labor's enforcement depends heavily on data received from the Internal Revenue Service. Labor believes its enforcement efforts are hampered by the quality and timeliness of the data provided. Also, the speed and accuracy with which it processes Federal Employee Compensation claims depend greatly on the information it receives from other agencies.

Court decisions also have a significant impact on the Department's operations. For example, the Supreme Court's February 19, 1985, precedent-setting decision in Garcia v. San Antonio Metropolitan Transit Authority et al. overturned its previous decision by ruling that the Fair Labor Standards Act's wage and hour provisions apply to state and local employees. The ruling extends Labor's enforcement responsibilities without providing additional resources. The decision also will significantly affect covered state and local entities which now, for example, must pay police officers and firefighters overtime pay for work in excess of 40 hours per week. Court decisions have also affected Labor's rulemaking activities--overturning some regulations and requiring Labor to issue others.

Shift in philosophical approach

A major challenge facing the Department is how to deal with the dramatic shift in philosophical approach that has occurred over the last several years. Starting with President Reagan's election in 1980, the Department, which had been expanding, became part of administration efforts to reduce the size and cost of federal domestic programs; further shift responsibilities for program policy-making, funding, and service delivery to state and local governments and private business; and lessen the federal regulatory burden. These shifts have raised questions internally about the Department's concern for its work force and externally about the effectiveness of some of its monitoring or enforcement programs.

Resource reductions

Since fiscal year 1980, Labor's controllable spending (funding for nonentitlement programs) has decreased about 36 percent, in constant dollars, from about $11.9 billion to $7.6 billion. During the same period, the Department's staffing has decreased 19 percent from about 23,100 in fiscal year 1980 to about 18,600 in fiscal year 1985. Figure 1.2 illustrates the

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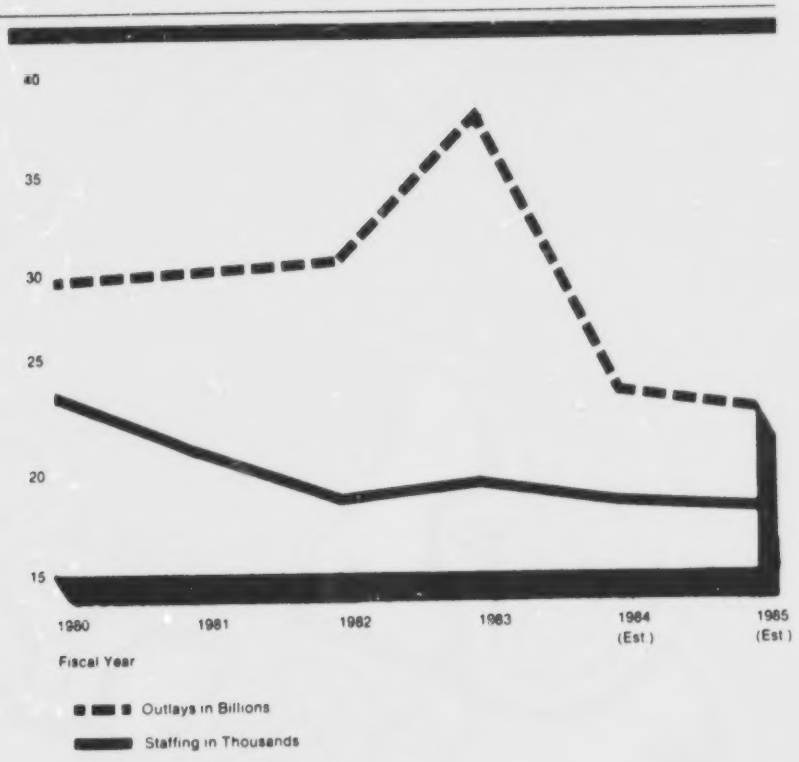
Department's total spending and staffing trends and compares these trends over the 6-year period of fiscal years 1980-85. Labor's major agencies and programs are shown in figure 1.3.

Figure 1.2: Department of Labor Outlays and Staffing FY 1980 - 85



Although former Secretary Donovan minimized the number of employees who lost their jobs as a result of cutbacks, many employees underwent disruptions, moves, and downgrades and experienced low morale. These problems, along with the lack of confidence by many program managers in the effectiveness of such personnel-oriented programs as training and development, pose a dual challenge for Secretary Brock: to build confidence among Labor's employees in the Department's concern for them and confidence among some key client groups in the Department's concern for its program delivery.

Shared responsibility with states

The replacement of the Comprehensive Employment and Training Act (CETA) with JTPA in 1982 represented another major shift in the Department's philosophical approach.

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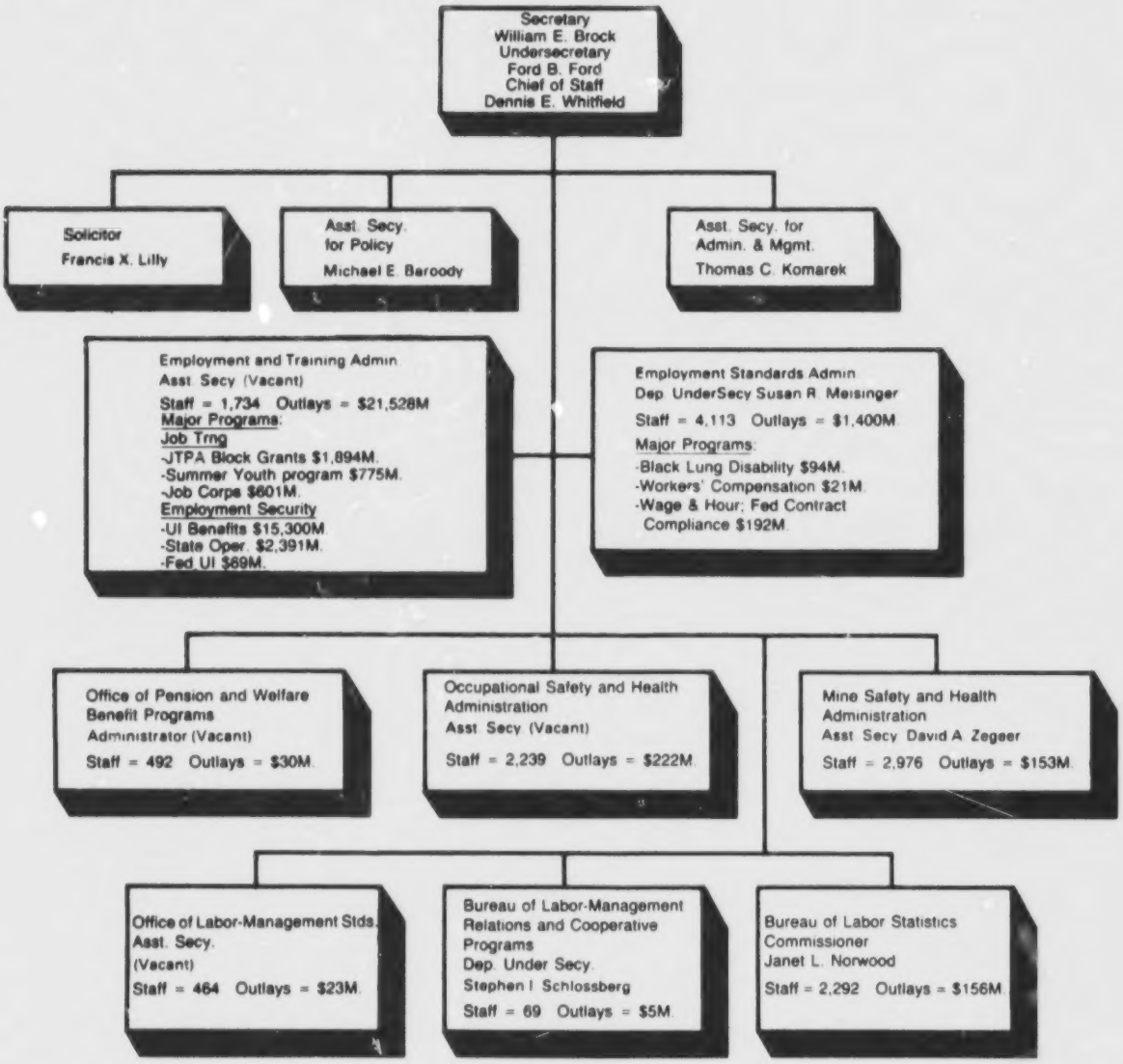
Figure 1.3: Top Labor Officials and Major Agencies' FY 1985 Staffing and Outlays



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JTPA shifted major job training program responsibilities from the Department to state governors while making business and industry a partner in the program's planning, administration, and oversight. Key functions--such as reviewing and approving plans for organizations proposing to deliver services, establishing administrative and financial rules and processes, and monitoring at the local level--formerly done by Labor were shifted to the states. Labor retained a much reduced role, implementing JTPA as if it were a block grant. ETA regional employees, who once provided assistance, guidance, and direction, were uncertain about their new role. Much of the federal decision making under JTPA was reserved for headquarters officials.

Another dimension of the shift to less federal intrusion and greater reliance on states is uncertainty over some aspects of federal monitoring. The uncertainty involves the administration's general philosophy of lessening federal control over federal/state programs essentially administered by states and OMB's and Labor's interpretation of the application of the Federal Managers' Financial Integrity Act (FIA)--enacted to improve federal controls.

Labor's application of FIA to the JTPA and UI programs illustrates this point. Consistent with authorizing legislation for UI and JTPA and with OMB's guidance for JTPA, Labor places substantial reliance on the states to monitor operations. Labor officials said, however, that they did not assess the vulnerability of the JTPA or UI programs to fraud, waste, or abuse at the state or local levels for purposes of evaluating controls over federal funds under FIA. We disagree with Labor on this point (see pp. 94 and 104). Since the act is relatively recent, this situation is not unexpected but needs to be resolved.

Shift in enforcement philosophy

Perhaps two of the most difficult challenges facing the Department are to adequately protect workers without overburdening employers and balance the interests of various client groups--organized labor, unorganized labor, the working poor, minorities, and the business community--in its enforcement programs. The objectives of these groups are not always consistent. For example, the Department's enforcement agencies have recently redirected their worker safety and health protection efforts to a more cooperative approach rather than one of confrontation. Business groups have expressed satisfaction with the philosophy, while organized labor believes that the Department is not adequately enforcing its standards to protect workers from hazardous conditions.

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KEY ACTIONS NEEDED

- Strengthen Secretarial direction and control.
- Enhance Department work force quality and efficiency.
- Operate in a more business-like manner.

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KEY ACTIONS NEEDED

The Secretary's role is critical to effective management at Labor. The Secretary establishes major policy initiatives and sets the tone for agency managers and staff. Secretaries have generally focused their attention on external affairs involving the White House, interest groups, and the Congress. This focus has limited their time available for internal management. Consequently, the Secretary has had to depend largely on others to manage the Department's administrative affairs. Secretarial actions, together with Labor's management processes and systems, must show commitment to effectively and efficiently managing the Department as a single entity. However, in recent years, Labor has generally not functioned as a unified organization with strong central direction and control. In fact, managers we surveyed did not generally view the Secretary as the principal policy initiator.

Primarily due to the lack of strong direction and control, organizational components have traditionally operated independently with limited oversight from the Office of the Secretary. As a result, components often did not adhere to central policies, and long-standing programmatic and management systems' problems received insufficient corrective action. For instance, a major internal automated data processing (ADP) policy remained in draft form for several years, and as a result, components did not always comply.

Component managers were frequently not held accountable for adhering to central policies in other areas, such as financial management and productivity. For example, Labor has operated since 1979 under a Department-wide policy to improve productivity, but little systematic action has resulted. Insufficient adherence to this policy has resulted in the lack of strategies designed to improve efficiency of operations and systematically assess the quality of services provided, including customer service. The Department could more efficiently manage its operations by using more and better performance measures and better analyzing measurement data. The Department could also benefit from greater use of quality measures to assess how well it delivers services.

With respect to long-standing problems, the Department has been largely in a reactive rather than a proactive position. In the areas of ERISA enforcement, UI quality control, procurement, and information resource management, the Department's corrective actions were prompted largely by strong criticisms by internal and external review groups.

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The Department also faces other challenges. For example, its administrative law judges face a substantial backlog (21,000 cases as of April 1985) of appeals from applicants for its black lung benefits program that will likely take several years to resolve. Also, if the administration's new youth minimum wage is enacted, the Secretary will have to arrange for appropriate enforcement even though a large backlog (24,845 cases as of March 1985) of complaints already exists in Labor's Wage and Hour Division.

Stronger Secretarial emphasis on effective departmental management systems, more attention to maintaining a quality work force, and better systems to direct and control the Department would have, in our opinion, put Labor in a better position to anticipate, more quickly address, or lessen the effects of these types of problems. For instance, improved oversight mechanisms and better performance data on key programs could have alerted the Secretary to emerging problems and permitted him to more effectively hold managers accountable for taking corrective action. Most likely, MSHA's shortfalls in mine inspections would have been detected much sooner. Also, a more systematic planning process would have given the Secretary a better framework for clearly articulating his immediate priorities and strategies for dealing with issues and problems requiring a long-term focus, such as the rulemaking process.

The remainder of the report discusses the key needed actions in more detail. It is organized as follows:

--Section 2 points out that better management can be attained by strengthening the Secretary's involvement in managing the Department and by increasing congressional support on key management initiatives. Selected examples of long-standing problem areas resulting from management shortfalls and our recommendations to correct these problems are also discussed.

--Section 3 discusses how management crises and credibility problems can be controlled through more effective use of management systems and by obtaining better data on performance and effectiveness of management controls, programs, and activities.

--Section 4 addresses the need to enhance the quality and efficiency of Labor's work force.

--Section 5 shows that Labor needs to operate in a more business-like manner to ensure adequate control and management of its financial resources.

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STRENGTHEN SECRETARIAL DIRECTION	
PROBLEMS	o Insufficient Secretarial emphasis on management. o No departmental long-range policy planning process. o Unclear priorities for and limited tracking of key objectives. o Limited top-level attention to enhancing work force quality and efficiency. o Limited influence of Assistant Secretary for Administration and Management.
RECOMMENDATIONS	o Increase Secretarial emphasis on management. o Improve Department long-range policy planning process for problems and issues that could benefit. o Identify and track key Secretarial objectives. o Show more concern for the Department's work force. o Designate an official above the assistant secretary level to focus on management. o Increase congressional emphasis on management issues. o Emphasize correction of long-standing problems.

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SECTION 2: STRENGTHEN SECRETARIAL DIRECTION

Better management could be attained by strengthening Secretarial direction and control over the Department and increasing congressional emphasis on the need for and importance of effective management of administrative functions and programs. Specific actions the Secretary should take include:

1. Show strong Secretarial support for and interest in an effectively managed, efficiently operated, unified Department.

2. Improve management systems, including short- and long-term planning, and address long-standing problems.

3. Show strong Secretarial concern for attracting, developing, and retaining a highly qualified, motivated, and efficient departmental work force.

4. Designate a key official, above the assistant secretary level, to (1) oversee development and use of essential management systems, (2) monitor development and use of key performance data, and (3) ensure accountability, performance, and a quality work force.

The Congress could help facilitate and sustain improved management by reaching agreement with the Secretary on key management initiatives, as well as on ways to measure progress being made.

INCREASE SECRETARIAL EMPHASIS ON MANAGEMENT

Labor's organizational culture, lack of internal and external credibility in certain areas, long-standing problems, and other challenges facing the Department make the increased role of the Secretary in management critical. Over the years, the extent of Secretaries' personal involvement in managing the Department has varied, but generally has been limited. Secretaries have largely focused on handling the Department's external affairs, such as dealing with the Congress, the White House, other agencies, client groups, and others. They have generally delegated responsibility for the Department's day-to-day management and made major decisions, affecting such matters as the budget, key regulatory actions, and legislative initiatives.

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Secretaries have also relied on other key officials, such as the Assistant Secretary for Policy, the Solicitor, the Assistant Secretary for Administration and Management, or a Chief of Staff, for advice and help in managing the Department. Although the titles and operational details have changed over the years, Secretaries also have relied on a committee or committees, made up for the most part of the aforementioned officials, to oversee the Department's planning systems, review budget and major policy proposals of components, or recommend decisions. The extent of reliance on and influence of officials depended on the Secretaries' preferences.

Labor Secretaries have used various techniques and procedures to manage the Department. For many years, a management-by-objectives process has been used to identify goals and objectives. Advisory committees reviewed agency proposals and made recommendations to the Secretary. At times, Presidential and Secretarial goals and objectives were identified and incorporated with the agencies' priority goals and systematically tracked, at least quarterly, through detailed written progress reports and meetings.

Recent departmental management mechanisms

The management system used by Secretary Donovan and Under Secretary Ford to guide and direct departmental operations retained some elements of a management-by-objectives approach, but generally placed much less reliance on paperwork and much more reliance on informal means to communicate direction and to receive feedback from the agencies. Two committees established in 1982, the Budget Review Committee and the Policy Review and Coordinating Committee, were principal means by which Secretary Donovan managed the Department. The committees, composed of key Labor policy and executive staff, advised the Secretary on major departmental issues. Also, Secretary Donovan established the position of Chief of Staff to assist in managing the Department by handling such functions as coordinating workflow through the Secretary's Office, screening issues agency heads wanted to bring to his attention, or providing advice on decisions.

The Budget Review Committee oversaw the departmental planning and budget decision process. Each year, the component agencies and offices submitted to the Committee for its review their proposed goals and objectives for the upcoming 2-year period along with brief written status reports on progress made in achieving their previous years' goals and objectives. The Committee reviewed the proposals as well as progress on the current year's objectives, met with component heads at an annual planning meeting, and recommended action to the Secretary or the

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Under Secretary, who made the final decision on goals and objectives. After goals and objectives had been approved, the components submitted their proposed budgets to the Committee, which reviewed them and recommended action to the Secretary or Under Secretary.

Similarly, the Policy Review and Coordinating Committee evaluated regulatory and legislative policy initiatives proposed by components. The Committee was chaired by the Secretary, and he reserved for himself final assessment of all aspects of the proposed policy and implementation strategy. The Committee tracked the progress of proposed initiatives through frequent meetings.

The Secretary or Under Secretary used several other mechanisms to direct and control the Department. These included biweekly meetings with top appointed officials and separate biweekly meetings with key career officials, written Secretarial orders on various subjects, and ad hoc decision memoranda by which component heads requested a decision on an issue that was not addressed by the Budget Review or Policy Review and Coordinating Committee. The Secretary or Under Secretary also received information on current or upcoming issues, events, or problems through periodic activity reports submitted by component heads. For the most part Secretary Donovan and Under Secretary Ford seemed to rely most heavily on scheduled biweekly or ad hoc meetings to communicate or receive information on matters other than the budget and proposed rules and legislation.

Events show the need for change

Labor has recently undergone substantial changes. Its budget and staff size have been substantially reduced. Significant philosophical changes in program direction have been implemented. It has lost credibility among several of its constituent groups either because they did not like the changes or because they believed Labor was not effectively carrying out its mission. It has large case backlogs in certain areas. Morale among many employees decreased, and many of its program managers lack confidence in certain aspects of its personnel management system. It has several long-standing program and management problems that most likely will require Secretarial involvement to correct. It lacks good information on performance of some of its components--one major unit has been operating in noncompliance with the law for at least 3 years. (See p. 76.) It also lacks sufficient information on the vulnerability of some of its key programs--JTPA and UI--to fraud, waste, or abuse.

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In our opinion, the Department's traditional mode or recent operating style, with components operating as independent units often not being held accountable for adherence to central policies or performance and with limited Secretarial emphasis on management, will not enable the Department to most effectively deal with the problems and challenges it faces. The stature and authority of the Secretary will be required to unify the Department; set basic values, direction, and objectives to be attained; hold component agency managers accountable; and restore both internal and external credibility.

We recognize that what we are calling for would involve less autonomy for component agencies and would, in effect, amount to a substantially greater change in the "culture" of the organization than has already taken place in connection with such recent actions as centralizing certain administrative services in Labor's headquarters. Nonetheless, we believe it can be done without unduly jeopardizing the components' flexibility to administer their programs or employees' identity with their components. Secretarial attention to balancing central direction and control with component flexibility to manage program delivery is critical. To date, Secretary Brock has shown the degree of commitment and support to good management that is essential.

IMPROVE DEPARTMENTAL LONG-RANGE POLICY PLANNING PROCESS

There is no systematic long-range policy planning effort at the Secretarial level. Rather, departmental plans are essentially compilations of individual agencies' 2-year objectives. The departmental planning process does not systematically provide for identifying emerging long-term policy issues or developing long-term strategies or approaches to deal with issues or problems. Further, it does not, in our opinion, provide sufficient perspective for considering the long-term implications of short-term actions, such as budget and staffing decisions. As a result, the Department has operated largely in a reactive rather than a proactive mode in dealing with program and administrative issues.

We recognize that, because of the nature of some of the Department's programs, the compelling influence of the budget cycle to focus on 1- or 2-year funding and staffing levels, and the frequent turnover in top-level positions (about every 26 months for Secretaries and program assistant secretaries), long-range planning may not be feasible or practical in all cases. Several areas where we believe long-term planning would be beneficial or might have enabled Labor to be proactive, as discussed in later sections of this report, include:

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--Pension enforcement - lack of credibility resulting from the lack of a comprehensive long-term strategy, limited staff relative to the universe of pension plans covered, and limited staff training. (See p. 36.)

--Rulemaking - little Labor credibility, particularly regarding OSHA, due to the slowness of the process, lack of sufficient specific data on causes of delays, and lack of a comprehensive plan for addressing the issue. (See p. 42.)

--Procurement - essential functions not always done or done sufficiently despite the long-standing nature of the problem due, in part, to the lack of a consistent strategy for upgrading the procurement work force. (See p. 48.)

--Information resources management - lack of an integrated, departmental effort to acquire and use resources efficiently as a result of the lack of a long-term plan and strong central policies and oversight. (See p. 62.)

--UI - inadequate process for assessing vulnerability due, in part, to the lack of a strategy for integrating various oversight mechanisms and delays in implementing an effective quality control program. (See p. 96.)

There is no generally accepted definition of planning or of what constitutes a long-term plan. Essentially, planning is a management function that produces and integrates policies, objectives, and strategies for carrying out some actions. For our purposes, planning includes the following basic elements:

--Setting goals and objectives.

--Designing and analyzing alternative programs/strategies to achieve the goals.

--Selecting the best course of action and mix of programs.

--Monitoring how adopted plans are carried out.

For our purposes, the presence of these elements distinguishes planning from other forward-looking mechanisms, such as forecasting and projecting.

In our view, these elements could be used as a general framework for establishing a long-term--3 or more years--policy development and implementation system. Such an approach, at the departmental level, would better enable the Secretary to focus

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on selected major issues requiring a long-term view and make decisions after considering various alternatives and weighing their advantages and disadvantages.

Our review of selected agencies' planning processes indicated that, except for long-range cost estimates, agencies frequently did not plan beyond a 2-year cycle. In entitlement programs--such as Federal Employees Compensation, Black Lung Disability, and UI--which, in effect, guarantee benefit payments to all eligible persons, agencies have developed long-range cost forecasts as a basis for projecting the solvency of the trust funds from which payments are made. However, forecasting costs does not include key planning elements, such as setting goals and objectives and making evaluations. Other plans we reviewed--individual, organizational, and support plans--were generally operational, establishing performance targets and scheduling actions to accomplish approved short-term goals and objectives. Generally, the plans did not require Secretarial approval and were tied directly to the federal budget process. Labor has, however, long-range plans for some areas, such as certain aspects of its pension enforcement program, and within the past 2 years initiated efforts to develop a long-range information resource management plan as required by the Paperwork Reduction Act of 1980.

SET CLEAR PRIORITIES FOR KEY OBJECTIVES

The departmental planning process does not clearly identify key Secretarial priorities. The Under Secretary's planning guidance to the agencies did not identify the specific objectives of most importance to the Secretary. Under the procedures followed, the agencies identified the objectives included in their proposals and assigned priority rankings of critical, high, or moderate. The proposed objectives were then reviewed by the Budget Review Committee and approved by the Secretary or the Under Secretary. The process generated a list of agency objectives for fiscal years 1983 and 1984 totaling more than 300, of which more than 90 were categorized as critical. The Secretary did not formally identify which objectives were most important to him. We believe that having so many critical and other objectives makes it difficult to determine what is really important and to hold managers accountable.

Despite this, between 1981 and 1983 Secretary Donovan successfully communicated and implemented his key objectives in at least three major areas. For example, the Secretary (1) reduced budget and staff levels, (2) implemented JTPA quickly, and (3) changed Labor's enforcement philosophy from an adversarial to a more cooperative approach. However, the Department has had long-standing management problems in other

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program and administrative areas. We believe that, in such a diverse Department with frequent turnover in top-level positions and so many agency objectives, the Secretary needs a more systematic mechanism for establishing key Secretarial objectives and communicating them to the agencies.

Also, Labor program managers did not perceive the Secretary to be significantly involved in initiating policies affecting their programs and activities. In response to our questionnaire, only about 20 percent of the respondents said that they believe the Secretary initiated policy to a great or very great extent, and about 52 percent felt that the Secretary had only some or no role in initiating program policy. Program managers said that the agency assistant secretaries and Senior Executive Service managers played the greatest roles in formulating policies.

IMPROVE TRACKING OF KEY OBJECTIVES

Monitoring the accomplishment of planned objectives is an integral part of management. Without an effective tracking system at the Secretarial level, slippages in achieving key departmental goals and objectives may go undetected for a long time, and early signs of problems could be missed. Labor's process could be strengthened if a more integrated and systematic process was established within the Office of the Secretary for tracking key departmental objectives.

Labor's annual planning process, whereby agencies prepare infrequent updates (a 6-month interim update in 1983 and an annual update for 1984) on the progress made in implementing their objectives, is a principal means for the Secretary to formally track achievement of key departmental objectives. We believe the Secretary should monitor progress more systematically and frequently, especially when there are so many objectives. Moreover, the annual written progress reports, in our opinion, generally did not provide sufficient information for the Secretary to adequately ascertain the agencies' progress. The reports frequently did not clearly describe the specific actions taken to achieve approved objectives, the current status, and any hindrances to completing action within the prescribed time frames.

Progress was monitored by the Secretary and Under Secretary in other ways at times other than the annual planning sessions. For example, according to Labor officials, biweekly meetings with top appointed and career staff covered a wide range of topics, one of which was status toward achieving objectives. Agency officials told us that these meetings were not documented to provide the Secretary with a record of the discussions.

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Officials told us also that periodic written progress reports on various activities were submitted to the Secretary and Under Secretary, but that there was usually no feedback from them. In addition, the Policy Review and Coordinating Committee meetings and other, ad hoc meetings gave the Secretary opportunities to review progress on goal and objective attainment.

While there are situations in which informal means can be used to monitor progress, we believe that effectively tracking so many objectives in such a manner makes it very difficult to identify and resolve slippages or problems promptly and hold managers accountable for performance. Further, we believe that more frequent and systematic tracking of key Secretarial objectives would strengthen the Secretary's knowledge of and control over departmental operations.

SHOW MORE CONCERN FOR THE DEPARTMENT'S WORK FORCE

During the last few years, Labor has gone through nine RIFs, and many employees have been downgraded and/or relocated to different positions within the Department. Furthermore, several Labor programs, such as enforcement and JTPA, have changed drastically, and the administration has attempted to eliminate others, such as the Job Corps. Although Secretary Donovan administered RIFs in a way that would minimize the number of employees who had to lose jobs, employee morale and confidence in the Department's concern for its employees were adversely affected.

For example, of 114 program managers who reported being affected by a RIF, 99 said that their unit's morale was adversely affected. Further, many managers responding to our questionnaire did not express strong confidence in Labor's training or management development programs.

Although we recognize that the Department has developed programs aimed at enhancing its work force, component agencies (1) have not consistently implemented them, (2) rarely identified work force planning or enhancement as an objective in the Department's annual planning process, and (3) have not been held accountable for carrying out work force planning or productivity improvement policies or guidance. Because of the importance of the Department's work force to its mission, we believe that the Secretary should demonstrate that he is concerned about enhancing employee morale, skills, development, and efficiency and achieving component agency implementation of central policies and guidance (or suitable alternatives) aimed at meeting these objectives. (See p. 114 for a further discussion of work-force issues.)

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DESIGNATE AN OFFICIAL ABOVE THE ASSISTANT SECRETARY LEVEL TO FOCUS ON MANAGEMENT

Even if the Secretary increases his emphasis on management, he will still have to devote substantial time to external matters. He is not likely to have sufficient time to deal with managing the Department's day-to-day activities, such as making sure planning systems work effectively and monitoring progress on objectives. Therefore, the Secretary should designate an official with sufficient expertise and influence to oversee essential management systems, ensure a quality work force and accountability, and monitor development and use of performance data. To effectively carry out this role, the official must have the Secretary's confidence and support. Program assistant secretaries must know that this official speaks for the Secretary on management issues.

Labor's organization and mission statements essentially charge the Under Secretary with carrying out much of the role we are setting forth. The Assistant Secretary for Administration and Management is also charged with playing a key role in supporting the Secretary and Under Secretary and handling much of the day-to-day responsibility for developing, implementing, and reviewing Department-wide administrative and management policies and programs. These include such areas as personnel, information resource management, procurement, financial management, and productivity improvement.

Although what we are suggesting largely already exists on paper (Labor mission statements), it has often not worked in practice for various reasons. From our discussions with current and former Labor officials, these reasons include the following: (1) Secretaries have generally not focused on internal management or placed strong emphasis on it; (2) Under Secretaries have not always had the strong confidence or support of the Secretary or have not always chosen to focus sufficient attention on internal management; (3) the Assistant Secretary for Administration and Management, a career position at Labor, has not had sufficient influence to get other assistant secretaries to adhere to central policies. (The remainder of this report further demonstrates the need for the actions we are recommending here.)

Recommendations to the Secretary of Labor

To strengthen the Department's direction by institutionalizing key management improvements, we recommend that the Secretary:

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--Show strong Secretarial support for and interest in an effectively managed, efficiently operated, unified Department.

--Develop a long-range planning process, where appropriate, to help ensure that desired program and support policy decisions are achieved in a planned and orderly fashion.

--Identify and monitor key Secretarial goals and objectives on a more integrated and systematic basis.

--Emphasize resolving long-standing problems requiring his attention.

--Show strong concern for attracting, developing, and retaining a highly qualified, motivated, and efficient departmental work force.

--Designate a key official, above the assistant secretary level, to (1) oversee the development and use of essential management systems, (2) monitor the development and use of key performance data, including results of audits, reviews, and evaluations, and (3) ensure accountability, performance, and a quality work force.

Agency comments and our evaluation

In mid-September 1985, task forces, established by Secretary Brock (see p. 33) to address preliminary proposals we made to him during a June 13, 1985, briefing, provided comments to us on our draft report. They pointed out technical concerns and identified actions already taken or planned regarding the specific recommendations proposed in our draft report. The Secretary provided the Department's formal comments on our draft report on September 26, 1985. We have modified our report, where appropriate, to address the points raised by the Secretary and his task forces. The Secretary agreed with the overall thrust of our report on the need to strengthen leadership and improve management and agreed with almost all of our major recommendations. He further pointed out improvements that had already been made and summarized actions that were underway or planned in response to our recommendations.

Specifically with respect to our recommendations to strengthen Secretarial direction and control, the Department said it recognized the need to articulate the Secretary's long-term goals and would develop a system to more formally direct greater attention to them. Further, Labor said that:

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--Actions are underway to develop a system of initiating, integrating, tracking, and managing Secretarial initiatives and goals and ensuring accountability.

--The Under Secretary will be given responsibility for handling day-to-day management of the Department. He will be responsible for overseeing essential departmental management systems, ensuring a quality work force and accountability, and monitoring and using performance data.

The Department also noted that several of our key recommendations, such as enhancing the ERISA and MSHA enforcement programs and procurement and accounting systems, potentially involve significant budgeting increases. Labor said that it will carefully weigh both the costs and benefits of each significant proposal. We believe the Department's comments and planned actions are very responsive to our recommendations, and the improvements planned by the Secretary should substantially strengthen overall management of the Department.

The Department's comments on our other recommendations and our evaluation of them are discussed in each of the following sections of the report.

Matters for consideration by the Congress: increase congressional emphasis on management issues

Many of the general management problems we found at Labor were similar to those identified during our first Department-wide management review at the Department of Housing and Urban Development.[1] Among the most significant findings that pertained to both Departments were the need for (1) stronger concern for enhancing managerial direction and control, (2) better accountability for agency-wide management functions, and (3) more continuity in the top management team.

On June 13, 1985, we briefed Secretary Brock on our preliminary observations. He expressed great interest in seeking solutions to the problems we discussed. He quickly established 10 task forces to address and recommend corrective actions in each of the major problem areas. On July 25, 1985, they reported to the Secretary on their assessments of the problems we identified, the actions already underway in these

[1] Increasing the Department of Housing and Urban Development's Effectiveness Through Improved Management (GAO/RCED-84-9, Jan. 10, 1984).

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problem areas, and additional actions they believed necessary. He demonstrated what we believe to be a strong and sincere desire to improve Labor's management. In addition to the specific corrective actions he initiates, we believe that the Congress can help facilitate and sustain the improvements Secretary Brock makes.

One vehicle for stressing the importance of agency management is periodic congressional oversight focusing on this subject. As two former Labor Under Secretaries we interviewed said, in essence, Labor Secretaries have neither received nor lost "points" for internal agency management and have therefore usually not emphasized it. However, sustained congressional interest could possibly change the importance given to this subject.

Often congressional hearings are primarily adversarial--a relationship inherent in our system of government. But there are ways to facilitate cooperation between the Congress and executive departments. If the appropriate congressional committees and the Secretary could agree on key management initiatives to be pursued and some measures of progress, oversight hearings could be focused on problem solving. We could assist in evaluating progress by objectively reviewing the actions proposed and taken. In some areas there should be a mutual interest among all appropriate congressional committees in seeing progress. The Secretary's job would be easier to the extent that a political consensus could be reached on issues to be pursued.

EMPHASIZE CORRECTION OF LONG-STANDING PROBLEMS

The following cases illustrate examples of long-standing problems resulting from management problems discussed in this section and emphasize the need for greater Secretarial direction. These cases include our recommendations to correct the problems identified, the Department's comments, and our evaluation of these comments.

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IMPROVE ERISA ENFORCEMENT

CHALLENGE: To achieve an effective ERISA enforcement program that provides assurance that participants are protected.

PROBLEMS:

- Lack of a consistent long-term strategy and management continuity.
- Small staff relative to plan universe.
- Limited training for enforcement staff.

RECOMMENDATION: Develop a comprehensive long-term strategy, periodically track its progress, and hold managers accountable for adhering to the strategy.

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IMPROVE ERISA ENFORCEMENT

ERISA was passed to ensure that employees who are covered by private pension and welfare plans receive the benefits to which they are entitled. Labor's OPWBP is responsible for enforcing the act's reporting, disclosure, and fiduciary provisions. Within OPWBP, the Office of Enforcement provides policy, guidance, and direction to the field offices which investigate the plans' compliance with the law. The Internal Revenue Service, the Department of Justice, and the Pension Benefit Guaranty Corporation also have roles to play in implementing certain ERISA provisions, but we did not include them in our review.

Lack of assurance that program protects participants

OPWBP's enforcement efforts have produced both monetary and nonmonetary results. For example, in fiscal year 1984, OPWBP reported closing 2,454 cases, of which 1,378 involved violations. Of the 1,378 cases, 383 involved $93 million[1] in assets recovered or safeguarded under ERISA. To illustrate the types of problems identified, in one recent case OPWBP found that managers of a pension plan had engaged in a transaction prohibited under ERISA involving the purchase of an office building and other property from a sponsoring company. OPWBP required that the property be sold and funds be restored to the plan. In other examples, OPWBP required a plan to obtain sufficient bonding after it had found that the bonding initially secured by plan managers was inadequate and in another plan required that funds be restored to it after finding that plan managers had made an inappropriate loan.

Labor has also taken several recent steps to address a number of the long-standing problems associated with ERISA enforcement. For example, in 1984 the Secretary designated OPWBP as a separate agency reporting directly to him to help resolve some of its management problems that were caused by its organizational structure. In addition, OPWBP made several internal organizational realignments to more effectively use its resources. It restructured the headquarters office to be more responsive to program needs, abolished the regional level to give the headquarters office more control over the field offices, and consolidated field offices to more effectively allocate its resources. In addition, Labor acted to improve the OPWBP working relationships with the Solicitor's Office. For example, three regional solicitors now have the authority to handle ERISA litigation matters to help expedite enforcement efforts.

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[1]Includes $30 million from four cases.

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Despite these accomplishments, the overall effectiveness of the program in protecting plan participants' benefits has been criticized over the last 10 years by a number of organizations, including GAO; Labor's Inspector General; and an internal Labor work group--the ERISA Enforcement Working Group--consisting of staff representing OPWBP, the Solicitor, and the Inspector General. In 1984, this work group reported that ERISA's enforcement program was unable to maintain credibility within the employee benefit plan community because there was no assurance that ERISA violations would likely be detected and corrected.

Long-standing problems in enforcing ERISA include (1) lack of consistent long-term strategy and management continuity, (2) limited coverage of benefit plans due to a small investigation staff relative to the number of plans to be monitored and the number of participants and amount of funds to be protected, and (3) inadequate staff training. We believe these problems largely center on the lack of a comprehensive, long-term enforcement strategy, which, when coupled with frequent turnover of key program officials, resulted in a reactive rather than a proactive approach to enforcement.

Lack of consistent long-term strategy and management continuity

Labor has not had a comprehensive, consistent long-term strategy for enforcing the law or selecting plans for review, and it acknowledges that its approach to enforcement of ERISA has changed frequently over the years, largely in response to several internal and external reports criticizing how it was carrying out its mission. At its inception, ERISA enforcement emphasized technical assistance and program education. Then, as a result of two external reports in 1977 and 1978, the enforcement policy was redirected to fiduciary investigations with an emphasis on large employee benefit plans. In response to the criticisms of three additional reports issued in 1981 and 1982, the enforcement policy was again redirected in 1983 to give greater emphasis to criminal investigations and smaller plans and give consideration to ERISA violations other than fiduciary violations.

In 1985, OPWBP developed a long-term plan with goals and objectives for each of its units. Although the Office of Enforcement's portion of the plan sets objectives only for the short term--fiscal years 1985 and 1986--the Assistant Administrator, responsible for the Office of Enforcement, agreed with our position that long-term planning is a good management tool for establishing and maintaining program direction. He explained that he wrote short-term objectives because he had been in his position for only about a month and he needed more time in his position before he could develop effective long-term objectives.

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We believe the development of and adherence to a sound long-term strategy is important in the pension program because of the frequent turnover of key program officials. For the 10-year period that OPWBP was a part of the Labor-Management Services Administration, there were five Assistant Secretaries. Since 1974, there have been seven Administrators of OPWBP and eight Assistant Administrators of the Office of Enforcement. The adverse effects of this turnover were alluded to by the ERISA Enforcement Working Group, which reported that throughout the program's history, no consistent enforcement policy has been maintained beyond the tenure of the person with primary responsibility for implementing it.

OPWBP has communicated its enforcement strategy through a Compliance Strategy Document. However, the document does not provide specific direction to the field offices on how to identify plans with the most potential for violations. Therefore, field offices developed their own methods for plan selection, resulting in wide variations in methods used and results achieved.

In 1978, we reported (HRD-78-154) that two field offices we reviewed used inconsistent bases for selecting plans to audit, and we said that better methods for selecting plans, such as random sampling, were needed. Labor's Inspector General made similar observations in a 1984 survey on ERISA enforcement. Among its observations were that (1) plan selection methods were inconsistent among the eight field offices visited; (2) the responsibility for plan selection rested with supervisors in some offices and individual investigators or auditors in others; (3) the success of case selection methods used by field offices varied widely; and (4) only two of the eight field offices reviewed had analyzed the effectiveness of their case selection methods.

The results of our current management review of the ERISA enforcement program were similar to those reported by GAO in 1978 and the Inspector General in 1984. The three area offices we visited used different bases for case selection, and only one of the three had attempted to evaluate the effectiveness of its methods.

Regarding program strategy and case selection methods, the Office of Enforcement's Assistant Administrator believes an effective enforcement program should focus its resources on as many plans as possible with an emphasis on detecting violations to make its enforcement presence known to the pension plan community. To achieve this type of program, he said the field offices should use a mixture of strategies to identify plans, including picking plans at random, reviewing plan data reported

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annually, and responding to complaints. Although he believes field offices should have the authority to manage their own casework, he agrees they should not be using inconsistent bases to select plans for review. In addition, he said his office had planned to develop a new Compliance Strategy Document in 1985, but he was uncertain as to when the document would be completed and whether it would specify case selection methods to be used by the field offices.

We believe that much of the criticism of the ERISA enforcement program could be overcome if OPWBP were to develop and follow a comprehensive long-term enforcement strategy. This strategy should include such elements as what specific goals and objectives are to be achieved over a multi-year period; what specific approaches are to be used, including case selection methods, to meet the goals and objectives; how training problems will be addressed; and how progress and results will be evaluated. The strategy could also discuss various approaches that could be followed with alternative resource levels and the results likely to be achieved under each alternative.

Small staff size relative to plan universe

There are about 915,000 pension and 4.5 million welfare plans covering 266 million participants (many persons are covered by more than one plan) and approximately $1 trillion in assets. As of June 1985, OPWBP had about 200 investigator and auditor positions, or about 1 for every 4,500 pension plans. With this staff, about 2,400 plans are reviewed each year, or less than 1 percent of the plan universe.

In 1978 (HRD-78-154), we reported that staffing of ERISA enforcement was inadequate to detect and investigate criminal and civil violations and recommended that the Secretary of Labor determine the additional resources needed to effectively enforce the act. Over the last several years, ERISA program staff have identified the need for additional resources, and the number of pension plans reporting has increased, but the total number of investigators and auditors for the program has not changed substantially.

Limited training for enforcement staff

Since 1977, the training provided for ERISA professional staff has been criticized for being limited and inadequate. As we reported 7 years ago, training for professional staff still consists of primarily on-the-job activities and little, if any, formal classroom training. According to Labor's 1984 report on

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ERISA enforcement, only four nationally sponsored training courses have been prepared since the program was established in 1974.

During our current review, 12 of 14 OPWBP program managers in both the field offices and headquarters indicated that they did not believe Labor's professional training and development programs have been effective in improving employee performance. Furthermore, OPWBP managers were among the least satisfied with Labor's training programs for professionals and supervisors of all the major Labor components we recently surveyed. Most of the OPWBP managers we interviewed said the lack of adequate training affects their operations. For example, several said the quality of their staff work would improve if adequate training was provided on such issues as real estate, banking, and financial investing.

OPWBP's Office of Enforcement has recognized the problems in the training area and plans to develop a comprehensive training program in 1985 which addresses the development of investigators' technical skills and updates their knowledge in rapidly changing areas, such as those cited above.

Actions recommended, agency comments, and our evaluation

In an Interim Report on Labor's management of the ERISA enforcement program (GAO/HRD-85-82) issued on June 24, 1985, to the Chairman, Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs, we recommended that the Secretary of Labor direct OPWBP to develop a comprehensive, long-term enforcement strategy and periodically track its progress. In addition, we recommended he hold key program managers accountable for adhering to the strategy and producing results unless changes are adequately justified and approved.

The Department concurred with our recommendations and is taking steps along the lines we recommended. The Office of Enforcement is expected to complete in fiscal year 1986 a long-term strategy document which will include enforcement policy recommendations and objectives and case selection criteria. According to Labor, this document will provide the basis for the annual program operating plans and will be used to monitor key managers' progress in meeting the goals set out in the plans. In addition, Labor formed committees to address the problems in training, case management, and certain other key areas. We believe that these actions should significantly improve OPWBP's performance.

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EXPEDITE RULEMAKING

CHALLENGE: To develop and implement a more credible rulemaking process.

PROBLEMS:

- o Little public confidence due to slowness in issuing regulations.
- o Limited information on specific causes of delays.
- o Complex issues and administrative process.
- o Corrective actions taken have been of limited benefit.

RECOMMENDATION: Establish a special committee to determine what can be done to expedite the rulemaking process, develop recommendations and a strategy for implementation, and focus attention on correcting the problem. Make the public aware that in certain areas it could be several years before standards are established due to their complexity.

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EXPEDITE RULEMAKING

Labor needs to establish a more credible rulemaking process. Concerns have been expressed by members of Congress and organizations representing either employers or workers over Labor's, and especially OSHA's, slowness in issuing many of their regulations. Much of the difficulty in the issuance of regulations stems from the complexity of the administrative process and the issues addressed. Corrective actions taken by Labor have been of limited help. Labor needs to identify what additional corrective actions are needed.

Little public confidence due to slowness in issuing regulations

The concerns and problems in the issuance of regulations have been reported by GAO and other organizations to the Congress and the public in published reports and have been repeatedly discussed in hearings before several committees and subcommittees of the Congress. Many of the concerns over slowness in the issuance of regulations are related to OSHA.

--In a report issued in 1977, GAO stated that little progress had occurred in promulgating health standards to protect workers.

--In an April 1985 report, the Office of Technology Assessment pointed out that potentially thousands of dangerous substances exist in the workplace. The report noted, however, that from 1971 through 1984 OSHA issued 18 health standards, or about 3 rules every 2 years.

--Members of Congress and organizations representing either employees or employers have expressed concerns over the last several years about Labor's, and especially OSHA's, slowness in issuing regulations. In some instances, groups representing employees have petitioned the courts to expedite issuance of certain regulations.

Although most of the concerns seem to center on OSHA, other agencies have difficulties in the issuance of some regulations, as shown in tables 2.1 and 2.2.

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Table 2.1

Number of Regulations Issued, 10/1/81 to 5/7/85

Agency	By number of months in process[a]						
	12 & under	13-24	25-36	37-48	49-60	Over 60	Total
ESA	7	0	1	2	0	0	10
MSHA	1	4	1	0	0	0	6
OSHA	3	2	2	0	0	1	8
OPWBP	3	3	0	0	0	0	6
Total	14	9	4	2	0	1	30

Table 2.2

Number of Regulations in Process
As of 5/7/85

Agency	Number of months[a]						
	12 & under	13-24	25-36	37-48	49-60	Over 60	Total
ESA	5	1	0	3	5	0	14
MSHA	5	7	3	0	1	0	16
OSHA	4	6	7	6	3	1	27
OPWBP	1	0	0	0	0	1	2
Total	15	14	10	9	9	2	59

[a]In computing the number of months, we used the notice of proposed rulemaking date or the advance notice of proposed rulemaking date, if applicable.

Reasons for delays vary

There have been limited studies performed of Labor's rulemaking process. In addition, Labor has no Department-wide automated system that tracks detailed processing steps of regulations. We, therefore, manually reviewed processing times for the following four judgmentally selected regulations.

--Pension Plan Assets (OPWBP).

--Hazard Communication (OSHA).

--Metal and Nonmetal Fire Protection (MSHA).

--Wire Rope (MSHA).

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We selected these regulations to obtain a better understanding of possible delays in issuing regulations at Labor. We wanted to review regulations that were in process varying amounts of time. For example, Wire Rope was in process for about 1 year from the date of the proposed rule until publication of the final rule. Pension Plan Assets, on the other hand, has been in process about 6 years since the date of the notice of proposed rulemaking.

We found varying reasons for delays. The primary reason was the need to review and analyze voluminous amounts of comments received, often resulting in issuing additional notices of proposed rulemaking. Other reasons cited were the complexity of issues addressed and the turnover of top officials resulting in changes to the proposed regulation or just delays until the new official had become familiar with the area.

A few Labor officials cited OMB as a cause of delays in processing time. We analyzed processing times for obtaining OMB clearance and found that, other than OSHA, agencies generally had obtained OMB clearance within 60 days. For the period January 1983 through December 1984, we found that for all agencies excluding OSHA, only 2 of 21 notices of proposed rules and none of 18 final rules took longer than 60 days to obtain OMB clearance. For OSHA, 7 of 18 notices of proposed rules took longer than 60 days to obtain OMB clearance, or more than 60 days had expired and OMB clearance had not been obtained. In some instances, OMB clearance took over 5 months, mainly due to OMB's request for additional information and analysis. None of the five final OSHA rules, issued during this period, took longer than 60 days to obtain OMB clearance.

Complex administrative process

The process required to issue regulations is itself time consuming. Labor officials stated that it is not unusual to expect 2 years to issue a regulation that is not very complex. Before issuance of the notice of proposed rulemaking, in some instances, research must be done to better understand the issues. Such research involves either formal studies, an advanced notice of proposed rulemaking, or both. Once the issues are understood, a notice of proposed rulemaking is issued with a 60-day comment period. According to Labor officials, invariably a 30-day extension is granted for comments.

Analysis of comments can take months due to the volume of comments received and varying positions taken. Hearings are often scheduled in selected cities, resulting in additional comments received for analysis. In many instances, the proposed

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rule is revised due to comments received, and the process is started over again. In addition, OMB often requires additional information or analysis before giving clearance.

In developing the proposed rule, Labor is required to prepare different analyses, such as the significant health risk involved and how the proposed rule will reduce that risk, ways to minimize the paperwork burden on the public resulting from the proposed rules, and the economic impact of the proposed rules. For example, the Regulatory Flexibility Act, which became effective on January 1, 1981, requires Labor to conduct a Regulatory Flexibility Analysis to gauge the economic consequences of the rule and to analyze the availability of more flexible approaches for lightening the rule's regulatory burden on small entities for which it is believed it will have a significant economic burden.

Complex issues addressed

The issues being addressed are often controversial and/or very technical. For example, the Secretary is to promulgate health standards to protect workers. Because of the concern of workplace exposure to toxic and dangerous substances, Labor continually receives pressure to regulate these thousands of substances, such as benzene and asbestos. OSHA uses a four-step approach for making decisions about health standards. First, the agency determines that a significant health risk exists. Second, it determines that regulatory action can reduce the risk. Third, OSHA sets the standard (exposure limit) acceptable to reduce the health risk. Finally, OSHA conducts a cost-effectiveness analysis of various options to determine which will achieve the standard in the least costly manner.

Because of the technical nature and limited research on many of these substances, studies taking years must be performed to try and determine the health risk level. Often several studies are performed showing conflicting information, and the standards as established by OSHA are usually tested in the courts. For example, from 1971 (when OSHA was established) through 1984, OSHA issued 18 separate health standards and all but 4 were tested in the courts. In addition, requirements for three of the standards have been overturned by the courts. Such court procedures can take years. For instance, the final comprehensive permanent lead standard for all industries was promulgated in November 1978. However, court suits challenging this standard were not decided until August 1980, and the more restrictive standard promulgated in December 1981 would not apply to certain industries because the Court of Appeals for the District of Columbia (where the various suits were consolidated) ruled that OSHA must show the feasibility of the standard for each industry.

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Corrective actions have been of limited benefit

Although Labor has taken steps to improve its rulemaking process, these actions have had limited effect on decreasing the time it takes to finalize regulations. In fact, some needed actions taken by Labor, such as more coordination with other federal agencies and departments, can actually add to the time in developing a regulation. In addition, Labor has limited control over many factors contributing to the slowness in processing regulations, such as studies needed to determine health risk and cost/benefit analysis or legal challenges to proposed standards. Labor needs to review its rulemaking process to determine areas that can be improved upon to help streamline the process.

Recommendations to the Secretary of Labor

We recommend that the Secretary:

--Establish a special committee to determine what can be done to expedite Labor's rulemaking process, develop recommendations and a strategy for implementation, and focus attention on correcting the problem.

--Make the public aware that in certain areas it could be several years before standards are established due to their complexity.

Agency comments and our evaluation

In commenting on our draft report, Labor emphasized that the rulemaking process is lengthy by nature, but believed improvements might be possible. Labor established a task force to study the problems involved in issuing regulations, particularly in the health and safety areas. The task force is to report early in 1986 as to what actions can possibly be taken to shorten the process. Labor program officials also agreed that making the public more aware of the constraints under which the Department operates in developing effective standards might help with public confidence in the present rulemaking process.

We believe the actions Labor has initiated are responsive to our recommendations.

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ENHANCE THE PROCUREMENT SYSTEM

CHALLENGE: To develop and implement a sound procurement system that will assure proper direction and control over the acquisition of goods and services.

PROBLEMS:

- Positive actions have been taken on long-standing problems, but key functions are not always done or done sufficiently, such as
  - --pre-award surveys and audits,
  - --cost and price analysis, and
  - --selection of most appropriate contract types.
- Work force disruptions from RIFs, downgrades, and turnover offset other positive actions taken and resulted in procurement staff that lacks skills in certain key areas.

RECOMMENDATIONS:

- Develop a long-term improvement plan.
- Assure proper job descriptions and classifications.
- More actively seek maximum competition.
- Implement an accurate data system.
- More critically describe problems in the biennial procurement system certification process.
- Prepare complete advance procurement plans.

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ENHANCE THE PROCUREMENT SYSTEM

Labor's three major procuring arms are the National Capital Service Center (NCSC) in OASAM, and the Office of Acquisition and Assistance and the Job Corps regional offices in ETA. NCSC handles contracts for all departmental components except ETA and MSHA. While the bulk of procurement transactions are handled in OASAM, the largest dollar volume is in ETA. Labor provided the fiscal year 1984 expenditure data shown in table 2.3.

Table 2.3

Department of Labor
FY 1984 Contract Expenditures

Procurement office	Amount (millions)	Percent
ETA (Job Corps)	$348.6	71
OASAM	77.9	16
ETA (non-Job Corps)	60.4	12
MSHA	6.2	1
ESA	.1	0
BLS	.1	0
Total	$493.3	100

Labor's procurements are governed by a substantial body of statutes, regulations, and Comptroller General decisions. The major statute, the Federal Property and Administrative Act of 1949, and the principal implementing Federal Acquisition Regulations, effective April 1, 1984, require that federal agencies properly plan and schedule procurement activities with special emphasis on competitive purchasing.

In March 1982 the President issued Executive Order 12352 to enhance federal procurement reforms. This order includes requirements for the (1) establishment of criteria to improve the effectiveness of procurement systems, (2) designation of a procurement executive in each executive agency to oversee procurement and to develop procurement systems and evaluate their performance, and (3) certification by the procurement executive that the system meets approved criteria.

Our procurement review was conducted primarily in OASAM and ETA. In ETA, we concentrated on the Job Corps program which receives over three-fourths of ETA's contracting funds and awards and administers contracts for operating 75 Job Corps centers

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throughout the country. A large segment of the procurement management review involved selecting and reviewing 24 contract files from OASAM's and ETA's procurement offices. The purpose was to determine whether key procurement functions were adequately done and if previously reported problems still existed.

A breakout of the contract files we reviewed is provided in table 2.4.

Table 2.4

Contract Files Reviewed by GAO

Category	Number
OASAM ADP	6
OASAM Non-ADP	2
ETA Headquarters Job Corps	4
ETA Headquarters Non-Job Corps	4
ETA Job Corps (region)	8[a]
Total	24

[a]Includes 7 Job Corps Centers and 1 screening and placement contract.

All of these contracts, which total over $110 million, were awarded between 1983 and 1985.

Positive actions have been taken on some long-standing problems, but key functions are not always done

In the past several years, GAO has reviewed various areas of Labor's procurement function, pointed out deficiencies, and made recommendations. The Department has taken action on some recommendations, and as a result, improvements are apparent. For example, in August 1982 (PLRD-82-107) GAO recommended and ETA acted to reduce sole-source contracts and assure that future contracts for operating Job Corps centers be awarded competitively unless contractors are specifically exempted from competition by statutes. ETA has also addressed GAO's July 1983 (GAO/HRD-83-66) concern that it lacked the expertise to independently assess the technical appropriateness of Job Corps architectural and engineering support contracts. ETA currently contracts out for independent expert review of these contracts, an option that had been suggested by GAO.

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Also, Labor's OIG has been involved in several surveys and reviews directed at weaknesses that were reported in Labor's December 1983 year-end internal control report. In an effort to deal with such concerns, procurement officials arranged for the OIG to review such areas as procurement consolidation, the Procurement Review Board, contracting officer qualifications, procurement budgeting, and year-end spending.

In addition to taking action on GAO and OIG recommendations, Labor officials have informed us that they recognize the problems discussed below and within resources available are taking corrective actions. We are concerned that when functions discussed below are not always done or done sufficiently, the government is not assured that it is getting goods and services for the most reasonable cost.

Annual advanced procurement planning

Federal Acquisition Regulations (48 C.F.R. 7.102) require that agencies perform coordinated planning for acquisitions other than small, repetitive buys to ensure that the government meets its needs in the most effective, economical, and timely manner. Each acquisition plan is required to contain the acquisition background and objectives, including a statement of need, applicable conditions, cost, capability of performance, and risks. In addition, each must provide a plan of action by indicating potential source of supplies and/or services, competition strategy, source-selection procedures, budgeting and funding, priorities, etc.

However, the agencies' past annual advanced procurement plans were primarily budgetary, not procurement planning documents. Labor officials informed us that new annual advanced procurement planning instructions addressing accountability and preplanning have been sent to the program agencies.

Preaward surveys and audits

Federal regulations (48 C.F.R. 9.101) define a preaward survey as an evaluation of the prospective contractor's performance capability under a proposed contract to determine contractor responsibility. After a competitive zone has been established, ETA's policy is to refer the names of prospective contractors who have not held a Labor contract during the preceding 3 years to OIG for a preaward survey. OIG uses a standardized preaward instrument to obtain the required information. In NCSC, the contracting officer decides on preaward surveys using criteria in the acquisition regulations. Program officials also get involved to varying degrees evaluating contractor capability during preaward surveys.

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Preaward audits, however, are defined as more comprehensive and are generally required for proposed contracts or contract modifications in excess of $500,000 unless the contracting officer determines that adequate information exists to make a reasonable determination. The contracting officer is required to draft a written waiver for the contract file documenting the basis for waiving the preaward audit.

Our review in OASAM and ETA disclosed that preaward surveys or audits had been performed in 13 of 24 contracts. Also, we noted that in cases where no preaward audit information was on file, there were no documents indicating waiver of this requirement. Job Corps national office officials told us they were aware of the problem of inadequate preaward documentation and/or activities. They pointed out that they are primarily concerned with new contractors' capabilities as opposed to repeat contractors. They stated they had begun to address the problem by issuing a May 1984 Job Corps directive to clarify preaward clearance procedures. They acknowledged, however, that more clarification is needed.

Cost and price analysis

The evaluation of price reasonableness and fairness is accomplished through two basic techniques called cost and price analysis. Cost analysis involves evaluating each element of a company's cost proposal, while price analysis involves comparing of prices or comparing a price with an in-house estimate. In OASAM, the Directorate of Procurement and Grant Management's Office of Cost Determination is responsible for cost analysis, while the assigned contract specialist is responsible for price analysis. Of the eight OASAM contract files we reviewed, five required cost and price analysis. However, two of the five showed no indication of this requirement, and one indicated the performance of price analysis only. According to OASAM officials, staff shortages account for the inability to conduct cost and price analysis for all contracts. Currently, of the 11 staff years allotted to the Office of Cost Determination, 2 are devoted to cost analysis for NCSC. Labor plans an increase to 3 staff years next year.

In ETA, 3 of 16 contract files contained documents indicating that cost and price analysis had been performed. Contract specialists have responsibility for this function in the Job Corps regional offices. However, none of the seven Job Corps center contracts had received cost or price analysis except for a simple comparison of contractors' estimates. Discussions with Job Corps officials in Atlanta, Chicago, and San Francisco regarding the omission of this requirement disclosed that their contract specialists lack sufficient expertise and training to

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perform this function. Although program officials said that some cost and price analysis is being performed, the lack of technical training has prevented the in-depth analysis that should be performed.

Contract administration

Contract administration is the set of functions required to assure contractor and government performance of the contract. In Labor, contract administration includes performance monitoring (desk evaluations and on-site visits), negotiating contract changes or modifications, financial management tracking, adherence to schedules, resolution of contractor/government problems, and closeout of contracts. We found problems in two of these functions, monitoring and closeouts.

Performance monitoring--Most performance monitoring is carried out by program officials, generally called contracting officer's technical representatives or government-authorized representatives. Our review of both OASAM and ETA contract files revealed a frequent lack of monitoring visits to contractor sites to assess performance. Monitoring visits are not required for all OASAM contracts, but in cases where required, they were not always made. OASAM has begun to address this problem by establishing a Division of Contract Administration in the Office of Procurement. Contract specialists in this organization monitor contractors, including on-site visits.

In ETA, Job Corps' program regulations require that regions conduct annual on-site evaluations at each center to determine if center performance meets contract provisions. The regulations recommend that priority be given to annual on-site reviews to centers with upcoming actions, including new contract awards and exercise of option-year contracts. In addition, Job Corps encourages planned on-site monitoring visits at least once a quarter for the purpose of monitoring center activities, including problems uncovered or suspected during desk reviews; checking on the progress of previous corrective action plans; and providing needed technical assistance. Job Corps recommends that a report be prepared at the conclusion of each visit describing project manager on-site activities, problems encountered, and requested corrective actions.

However, in the Chicago and Atlanta Job Corps regional offices we found problems with both of these reviews. For example, annual center review schedules are not being fully met (priority is, however, being given to centers with upcoming procurements). Although there were no records of field visits to Job Corps centers in the contract files, discussions with some project managers disclosed that they do make these visits,

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although sometimes infrequently and in some instances such records may be in the project officer files rather than in contract files.

In discussions with San Francisco, Chicago, and Atlanta Job Corps regional officials, we found that monitoring visits to contractors have decreased due to staff reductions and the addition of inexperienced staff. For example, San Francisco regional office monitoring visits decreased from 34 in fiscal year 1983 to 27 in fiscal year 1984. As a result, in one region, Job Corps program staff were unaware of a major operational problem at one contract center. Had more frequent monitoring visits been made, Labor staff could have identified and resolved the problem before it intensified.

The reduction of secretarial and administrative staff has imposed burdens on Job Corps regional office staff. Many professional staff told us they must do their own typing and filing, otherwise correspondence with contractors would be unacceptably delayed and contract files would be incomplete.

Contract closeout--Contract closeout is the process following contract completion by which a contracting office ensures that all administrative actions are taken to account for and document actions related to appropriate funds, property, and performance under the contract. Departmental policy requires that all contracts be timely closed out and holds contracting officers responsible for ensuring that cost-plus-fixed-fee contracts are closed out within 18 months of contract completion.

Although all of the contracts we reviewed were active, several procurement officials told us that contract closeout has been recognized as a problem in both OASAM and ETA and corrective action has been initiated. Since final closeout requires an audit of the contract, the OIG's workplan includes audits of contracts for Job Corps center operations since there has been concern over the manner in which the fee has been awarded. OASAM has devoted extra staff in an attempt to eliminate its backlog.

OASAM's Office of Procurement provided documentation as of January 1985 showing about 270 inactive (expired) contracts had not been closed out, some of which had expired over 2 years ago. Last year, Atlanta's Job Corps reported to the national office that it had 24 open, expired contracts with a total value of about $284 million. Failure to promptly close out inactive contracts delays accounting offices in liquidating outstanding obligation balances that are no longer needed. Both OASAM and ETA attribute their failure to close out contracts to staff shortages and the failure to clearly define staff responsibility for each closeout action.

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Selection of appropriate types of contracts

Contract types are grouped into two broad categories: fixed-price and cost-reimbursement. Specific contract types range from firm-fixed-price, in which the contractor has full responsibility for performance costs and resulting profit (or loss), to cost-plus-fixed-fee, in which the contractor has minimal responsibility for the performance costs and the negotiated fee (profit) is fixed. Although cost-plus-fixed-fee is the contract type most disadvantageous to the government, all seven Job Corps center contracts we reviewed were awarded this way. According to a Job Corps official, all Job Corps center contracts have been cost-plus-fixed-fee types.

Job Corps' procurement managers agree that cost-plus-fixed-fee contracts provide little incentive to contractors to keep prices down and to perform more efficiently. However, they said they lack sufficiently experienced staff to develop and administer different kinds of contracts. After discussions with us about the use of contract types more advantageous to the government, ETA awarded a performance award fee contract on a pilot basis in the Seattle region and is planning to award another in the Boston region. (In award fee contracts, the contract award is adjusted up or down periodically based on assessments of contractor's performance.) Other Labor procurement officials stated that the obstacle they see in negotiating alternative performance or cost incentive type contracts is the shortage of procurement staff to administer them--these types of contracts require close performance monitoring. ETA officials believe that future staff training and feedback from several pilot tests will enable expansion of incentive contracting.

More competitive possibilities in some instances

Although the Department has made progress in increasing competition, we believe more competitive possibilities exist. Federal legislation, such as the Competition in Contracting Act, requires agencies to promote and to provide for full and open competition. Contracts can be offered for competition using either sealed bids or negotiation.

In order to increase competition for negotiated contracts over $10,000, contracting officers are required to publicize contract actions using the following means:

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--Advertising in the Commerce Business Daily.

--Displaying copies of solicitations on bulletin boards in the contracting office and other public places.

--Providing copies of the solicitation to small business concerns upon request and to other requestors based on availability.

--Mailing solicitations to prospective contractors whose names are included on an established bidder list.

Also, before issuing formal solicitations, contracting officers may elect to use presolicitation notices as a preliminary step in negotiating acquisitions. Presolicitation notices define as explicitly as possible the contract specifications and requirements to be furnished by those wishing to submit a proposal. They aid prospective contractors in later submitting proposals without undue expenditure of time, effort, and money.

Contract files and other documents that we reviewed indicated that proposal solicitations for negotiated competitive contracts had been properly publicized in the Commerce Business Daily and that bidders' lists, as well as copies of some solicitation letters, were on file. In spite of this, in several instances responses to requests for proposals were limited. For example, in the Chicago Job Corps regional office, there were at least three instances in which only one bidder had submitted a proposal for a Job Corps center contract award. Several other contracts had received two responses, but in the one case in which a presolicitation notice was mailed to prospective bidders, there were four respondents. A Job Corps spokesperson in that office agreed that in this case, use of a presolicitation notice, although optional, had resulted in greater competition.

Inaccurate procurement data

During our review, we found that Labor does not have accurate, reliable procurement contract data readily available. Such information is vital for the management of the acquisition function.

Labor's agencies generate numerous reports to document the distribution, award, audit, recovery, and movement of contract funds through the system. The Department has automated the small purchases function for all agencies except MSHA. Management of the Federal Procurement Data System reporting has been centralized to increase accuracy and reliability of the information in this system. Each contracting agency has, to

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varying degrees, internal management systems for the procurement function. Officials informed us that a departmental automated acquisition system design has been completed and will be implemented as resources allow.

Procurement system certification

As required by Executive Order 12352, Labor's procurement executive certified for the first time to the Secretary of Labor in December 1984 that the Department's procurement system met approved criteria. The certification letter stated that its purpose was not to attest that the system works perfectly but that it works within established federal guidelines, it accomplishes its goals of providing goods and services both economically and efficiently, known problems are being addressed, and oversight systems are in place to identify deficiencies.

Labor would have gained more from this self-certification if it would have more completely described its problems and the resources required to correct deficiencies. For example, Labor concluded that it had adequate numbers of staff with proper skills. We do not believe this conclusion fairly reflected the status of Labor's procurement work force and gave the Secretary an unclear picture. Without accurate information, the Secretary is not in a position to know about and help correct problems that exist.

Work-force disruptions adversely affect procurement capability

Many of the procurement problems we identified resulted from the lack of sufficiently skilled procurement staff, particularly in the Job Corps program. Although Labor has provided procurement training in some areas (especially in Job Corps), it still lacks sufficient staff with skills in certain key areas in ETA's Office of Acquisition and Assistance and OASAM's NCSC as well as the Job Corps. ETA officials informed us that in addition to training already provided, further training is planned to enhance the ETA procurement capability. RIFs, staff downgrades, and limited career opportunities have worked against the intent of executive order 12352 and Labor's other positive steps to enhance its procurement work force. The executive order requires each executive department and agency to: "Establish career management programs, covering the full range of personnel management functions, that will result in a highly qualified, well managed professional procurement work force."

A brief discussion of work-force disruptions follows.

--Despite workload increases, such as an increase in Job Corps contract centers from 32 in the late 1970's to 75 by 1982, overall Job Corps staffing decreased from about 320 to 220. In some cases experienced staff have been replaced by inexperienced staff; for example, 8 of 19 project managers in Atlanta, Chicago, and San Francisco were replaced. (See work-force quality section for additional details.) Consideration is being given to classifying the GS-12 contract specialist position in the Chicago Job Corps regional office at the grade 11 level; this could affect similar positions nationwide. The procurement analyst at Job Corps headquarters, who essentially oversees the program's entire procurement operation, was previously classified as a GS-13 Manpower Development Specialist. As a result of a RIF, she was placed in a GS-9 procurement position, was subsequently promoted to a GS-11, and is seeking further consideration.

--ETA's Office of Acquisition and Assistance has experienced turnover and changes due to RIFs and organizational turbulence caused by rumors of consolidation and/or further reductions. Several staff do not have necessary skills, training, or experience. Turnover occurred in 7 out of 27 procurement positions during a 9-month period in 1984.

--During fiscal years 1984 and 1985, 6 of 25 procurement staff in OASAM's NCSC left for better opportunities.

Management officials in ETA we interviewed indicated that these staff and grade reductions have been made as part of government-wide efforts to reduce spending and reduce the number of positions in grades 11-15. Personnel officials in OASAM stated that these actions were part of (1) a long-term effort (starting in 1979) to correct positions misclassified in the Manpower Development Series, GS-142, (2) two major ETA RIFs, and (3) the 1984 introductory phase preparatory to applying a new government-wide GS-1102 Contracting Series classification standard to procurement specialist type positions in the Job Corps. We believe that the implementation of the new classification standard may conflict with another government-wide objective to enhance the procurement work force and that resolving this conflict will require top-level management attention. Labor officials acknowledge that this situation needs to be addressed and believe it can be resolved. They anticipate redesign of jobs over the long term to accurately reflect grade levels appropriate to the responsibility, judgment, and complexity associated with the procurement function.

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Addressing this issue is a complex task which probably will take a long time to complete and will involve the Office of the Secretary, personnel officials in OASAM and component agencies, and program managers. OMB, GSA, and OPM may also need to be contacted. At least two important factors need to be considered.

First, in Labor (especially Job Corps), procurement staff often must perform technical tasks without support from specialists, such as cost and price analysts, cost estimators, and financial analysts. They therefore need a wide range of skills to perform a number of different specialties.

Second, procurement is more than a "support" function for several Labor programs, such as the Job Corps and entitlement programs administered by ESA. In these cases, procurement is integral to the program and mission achievement. The Job Corps program, for example, is implemented almost entirely by contract, and program staff perform a significant portion of the procurement function, such as contract administration.

Recommendations to the Secretary of Labor

We recommend that the Secretary enhance Labor's procurement capability by:

--(1) Directing Labor's procurement executive to develop a long-term plan for improving the procurement work force and function, including training for program officials or technical personnel who carry out significant procurement functions, (2) holding managers accountable for adhering to the plan, and (3) tracking progress.

--Directing procurement managers as well as program managers to work with their personnel offices to focus on enhancing position skills, defining position requirements, and assuring proper job classification.

--Directing the Department's procurement officials to strengthen efforts already initiated to maximize competition by using presolicitation notices or other means, where feasible.

--Directing the Assistant Secretary for Administration and Management to implement a comprehensive automated procurement data system.

--Directing the procurement executive to describe the Department's problems and the needed resources required to correct deficiencies in a more complete manner in the next procurement system certification.

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--Holding managers accountable for preparing annual advanced procurement plans that contain required elements and reflect realistic up-front assessments of needs.

Agency comments and our evaluation

In commenting on our draft report, Labor generally agreed with our findings and recommendations. Recognizing the need to strengthen procurement staff qualifications, it has initiated efforts to develop a long-term training strategy and resolve classification issues affecting procurement grade levels. Pointing out that its efforts to increase competition have been effective, Labor said it recently took steps to improve procurement planning and would soon issue instructions expanding the use of presolicitation notices. It further said efforts will also continue to standardize and clarify policy on such areas as closeout, audit, letter of credit, and indirect costs, and that development of a fully automated procurement data system that is linked to its accounting system is a long-term goal. Further, Labor stated that its next procurement system certification will more completely describe problems identified and resources needed to address them. We believe the actions planned or taken by Labor are responsive to our recommendations.

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UPGRADE INFORMATION RESOURCES MANAGEMENT

CHALLENGE: To improve management of information resources--data, people, hardware, software, and telecommunications--without inappropriately affecting component flexibility in systems operation.

PROBLEMS: Labor needs to sustain actions initiated through its reorganization to alleviate information resources management (IRM) problems others had identified. Some of the pre-1985 problems that we identified include:

- o Lack of departmental plan and sufficient guidance for managing information resources.
- o Lack of effective departmental review of agency plans and acquisitions.
- o Benefits that could result from additional system/resource sharing and systems compatibility not sufficiently explored.

RECOMMENDATIONS: Complete an integrated Department-wide plan, review and approve agency plans, and monitor operations to improve resource allocation decisions, control acquisitions, and enhance systems compatibility and use.

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UPGRADE INFORMATION RESOURCES MANAGEMENT

Labor needs to better manage its information resources to correct current and past problems and establish a framework for effective future management of its data, hardware, software, and related personnel and telecommunications resources.

Before 1985, Labor exercised little central oversight, guidance, and review of agencies' management of information resources. However, starting in January 1985, it initiated many positive steps, including reorganizing ADP and IRM functions, drafting a strategy paper, initiating resources inventories, and developing milestones for an ADP/telecommunications plan. However, an approved Department-wide strategy and plan, better criteria for and review of agency information resources management, improved compliance with policies and procedures, and increased systems' compatibility and use could enhance support for the Department's missions.

The Paperwork Reduction Act of 1980 requires departments to carry out information management in an efficient, economical, and effective manner. The Secretary designated the Assistant Secretary for Administration and Management as the Department's senior official for information management. According to the act, the senior official is responsible for acquiring ADP resources, inventorying information systems, eliminating duplication or overlap in systems, and periodically reviewing information management activities. The Assistant Secretary holds the Directorate of Information Resources Management (DIRM) responsible for the day-to-day management and leadership of the Department's information resources program.

In addition to the legislative requirements, OMB and GSA have developed IRM requirements and guidance. OMB's assistance has been in the budget development and planning facets. GSA assists the Department in the ADP and telecommunications procurement processes.

To support the activities of the major program and support agencies, Labor operates about 50 of what it considers major automated information systems. Thirteen of these systems are centrally managed administrative systems, while the others support functional or program needs of specific agencies and are operated by the agencies.

Only for the common administrative systems has the Department retained responsibility for direct management in a

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centralized location--OASAM. These systems include payroll, personnel, accounting, budget, and property management, among others. In fiscal year 1986 Labor plans to spend over $138 million for information systems.

To manage the agency support systems, Labor used a decentralized decision-making strategy; that is, the Department chose not to employ a strong central review and control function. It believed that decisions about the data processing resources used in support of a particular program were best made by the line agency responsible for that program--not by the Department. Additionally, Labor chose to allow the program agencies to retain primary responsibility for ADP management, including the operational management of the programmatic ADP environment: hardware, software, and telecommunications systems. Over 60 percent of the 147 program managers who expressed an opinion generally indicated satisfaction with such services as software development and systems acquisition under this approach. However, this approach resulted in an ADP environment which has, among other things, permitted:

--Each agency to operate multiple systems.

--Separate systems to be developed for specific program needs.

--Departmental oversight to be limited to procurement approval.

--Little intra- and inter-agency cooperation and equipment sharing.

Past reviews identified problems managing information resources

While the Department's policy of decentralization has achieved many of the goals for which it was designed, the resulting ADP environment in Labor has been the subject of criticism from a variety of sources, including (1) the House Appropriations Committee's Survey and Investigations Staff, (2) GSA, (3) OMB, and (4) Labor's OIG. This criticism was directed at a number of the attributes of that environment, including:

--The operation of incompatible equipment and systems.

--The limited sharing of resources--data, hardware, software, telecommunications, and personnel.

--The potential for inefficient use of surplus capacity.

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--Operation of parallel systems with similar functions by different programs.

--Systems differences, which limit Labor ADP staff transferability between programs and agencies.

The Department agreed with many of the criticisms in 1984 hearings before the House Appropriations Committee and has initiated some corrective actions. For instance, the Department reorganized to place within one departmental office not only the ADP functions but also such IRM functions as paperwork and IRM reviews. In 1985 the Department issued a set of general policies, prepared a draft strategy paper, contracted with GSA for planning assistance, and acknowledged the need for more specific policies regarding planning and review of acquisitions. By April 1985 DIRM developed a workplan with objectives of fostering interagency cooperation, improving IRM management, establishing a review process, and prescribing milestones for a departmental plan. These actions initiated by the Department can help to address the long-standing problems; however, we believe that still more can be done in several areas in order to sustain the progress that the DIRM staff have begun.

Departmental plan needed

A departmental plan for managing all information resources is needed. A first step in the process will be completing an ADP/telecommunications plan for the Department as required under the Paperwork Reduction Act of 1980 and OMB's March 1984 bulletin. Planning guidance was provided by OMB's April 1984 implementing instructions. However, as of September 1985, the Department lacked a comprehensive, integrated, Department-wide plan. In May 1984 it directed the development of separate technical plans which provide a long-range forecast for new or modified systems while permitting decentralized decision making at the agency level. In an October 1984 memorandum, OMB directed Labor to document steps taken to achieve Department-wide planning and direction for information technology and submit a Department-wide ADP telecommunications plan by January 1, 1985. Criteria and guidance which could be used for such a consolidated ADP and telecommunications plan were contained in OMB's April 1984 publication, entitled "A Five-Year Plan for Meeting the Automatic Data Processing and Telecommunications Needs of the Federal Government."

OMB wanted a Department-wide, strategic plan, but what Labor provided was the packet of individual technical plans. In June 1985, OMB reiterated the need for a Department-wide plan. It specified that the plan must be completed and accepted by OMB before any information system requests in the 1987 budget

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submission to OMB can be considered. The DIRM staff said they have begun gathering data for such a plan but require additional studies and analysis to complete the ADP and telecommunications portions of such plans. The DIRM workplan milestone for completing the plan is March 1986.

Labor is obligated under the Paperwork Reduction Act and OMB instructions and Bulletin 85-12 to develop a departmental planning process for applying information resources to accomplish the Department's and the agencies' missions. The resulting departmental plan should include overall mission and strategy statements; define responsibilities, resources, and objectives; and include quantifiable criteria which might include dollars and milestones against which progress can be measured. The Department has been redrafting its strategy statement since the DIRM reorganization. The departmental plan needs not only to consolidate, but also to integrate, agency-wide plans based upon common definitions, common policy directions, and common planning assumptions in light of budget realities.

Use of a structured, periodic process will assist the Department through logical, sequential steps in planning. This will increase the likelihood that (1) program missions and objectives serve as the basis for the plan, (2) a comprehensive department-wide assessment of needs and requirements is made based on current status, (3) the Department determines where it needs to be at the end of the planning horizon, and (4) resource requirements will be consistent with known resource constraints and provide a valid foundation for future budget justifications. For example, through comprehensive departmental planning, DIRM might address the feasibility of sharing or building upon already existing case management systems rather than developing entirely new systems for each agency needing case management systems for enforcement or other types of programs.

Better guidance and review of agency IRM inventories

To effectively plan for the management of information resources, the Department needs to know what resources the component agencies have and are using. The Paperwork Reduction Act requires inventories, and GSA prescribes the requirements for ADP equipment inventories (41 C.F.R. 101-36.5). However, Labor does not have a complete, accurate departmental ADP inventory and needs to issue better guidance for agencies in developing accurate, consistent inventories of existing information resources. In 1984 the Department testified before the House Appropriations Committee that agencies would complete four IRM inventories--systems, hardware, software, and personnel--by the end of fiscal year 1984.

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The Department issued general guidance for the initial ADP inventory in 1983 and the first report of that inventory was published in April 1984. While assessing inaccuracies in the initial inventory, OIG personnel concluded that the departmental guidance was inadequate. As a result, Labor issued additional policy and coding guidance to agencies on updating and expanding the ADP inventories. Agency personnel stated that the additional departmental guidance for performing the inventory remains inadequate. For example, the Chicago region excluded some hardware because they thought it was fully depreciated; other items were included on another departmental property management system and so were omitted from the ADP inventory.

The most recent inventories continue to be inaccurate. For example, a segment of BLS was not included--ADP resources located in the regions were not reported in the Department ADP inventory. ETA did not include in its inventory equipment valued at $292,000 and stored in Chicago. Microcomputer equipment in an OASAM office in Chicago was reported to belong to an agency but could not be found on the Department's ADP inventory. In the Atlanta and Jacksonville OSHA offices, significant inaccuracies exist in the departmental inventory also. Only 40 percent of the items could be found in a sample of the two offices. Additionally 22 uninventoried items were found during a physical inventory of the two offices. DIRM did not supervise the accomplishment of the inventories. However, the DIRM workplan has scheduled four inventory tests for fiscal year 1985 and anticipates IRM reviews to assess equipment utilization starting in fiscal year 1986.

In addition, the personnel skills inventory, which the Department reported would be completed by the end of fiscal year 1984, had not been initiated as of July 1, 1985. Without this inventory, the potential for interagency assistance by the most competent IRM staff is inhibited. The DIRM workplan has scheduled this inventory to begin in September 1985 and be completed by April 1986.

Strengthen departmental review of agency plans and proposed acquisitions

Under its decentralized approach, Labor had chosen to permit decision making at the agency level. Labor limited management of information resources to, among other things, (1) requiring system technical plans, (2) preparing annual ADP budget submissions for OMB, and (3) attempting to control agency procurements. With the creation of the DIRM office, Labor is now in a position to oversee and assist agencies' planning, acquisition, and use of information resources. However, this function needs a staff of highly skilled, technical personnel. The expanded role for DIRM may require Labor to augment the DIRM staff with additional, technically knowledgeable computer staff

obtained either from transfers within the Department or hired externally. As the DIRM staff expand their skills in system justification, need and requirements assessments, cost/benefit analysis, and compatibility and utilization reviews, the Department's DIRM director envisions a more active oversight and review function at the Department level. We believe DIRM officials recognize the weaknesses we and others have identified in the past approach and through more active departmental management of information resources can eliminate unnecessary duplication and improve system compatibility and program efficiency.

Critical review of agency plans

Particularly in the decentralized environment at Labor, the Department needs to critically review agency as well as technical plans, if the departmental long-term goal of greater compatibility of hardware, software, and telecommunications is to be achieved. In May 1984, the Department specified the requirement for agency and technical plans. The agency plan was to summarize the individual technical plans. We believe such agency plans, if prepared along the guidelines specified in OMB's "A 5-Year Plan for Meeting the Automatic Data Processing and Telecommunications Needs of the Federal Government," could be useful as building blocks in developing the Department-wide ADP/telecommunications plan. The departmental assessment of agency and technical plans needs to be made to facilitate necessary acquisitions and increase use of existing IRM resources. In 1984 Labor testified before the House Appropriations Committee that the agencies had to prepare long-range plans and these plans would be signed by the head of the agency and forwarded to the departmental senior IRM official for review and approval.

While agencies have developed technical plans (generally for individual systems) and submitted them to the Department, no agency-wide plans had been approved by the senior official as of July 1, 1985. The DIRM director told us the Department had no approval process for agency plans.

The Department is now reviewing agency submissions. The lack of an adequate, approved plan caused the Department to limit ETA's expansion of its computer system network known as the Distributed Computer Network. In October 1984, OMB directed the Office of the Secretary to review the ETA network and report the results to OMB before making further expenditures on the network. The Department reviewed the plan submitted by the agency and found it lacked adequate requirements, alternatives, and cost/benefit analyses. As a result, the agency's expansion of this network, if justified, has now been delayed for over 9 months as the agency attempts to prepare a proper plan.

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Systems acquisition policies and procedures

The Paperwork Reduction Act requires federal agencies as part of systems planning and justification to perform various reviews. Labor's policies, OMB bulletins and circulars, and GSA procurement requirements specify the type analyses, procedures, and documentation required to support the acquisition of new or additional ADP resources. The system acquisition process should include comprehensive studies of needs, user requirements, feasibility, costs of alternative approaches, cost/benefit analyses, and adequate steps to assure new systems will perform effectively. However, we identified instances where the Department has not enforced requirements for adequately assessing needs, preparing justified cost/benefit analyses, requiring a live test demonstration, and assuring compatibility to the maximum extent possible in the acquisition of major ADP resources.

The Department permitted the expansion of a $3 million system for the control of the multibillion-dollar unemployment insurance program to proceed without adequate planning documentation. As late as January 1, 1985, this system's technical plan lacked basic information regarding (1) telecommunications requirements for the system, (2) data to be collected and processed by the future system, and (3) a definition of the facilities/computer equipment to be dedicated to the system. Nevertheless, the Department authorized ETA to spend up to $1 million in 1984 on the system. By June 25, 1985, the Department had obtained a plan; however, the system was initially projected to be operational by July 1985. In July 1985, Labor reported that "implementation of the quality control program has been delayed to afford the Secretary the opportunity to assess its appropriateness and adequacy as a tool to oversee the UI (Unemployment Insurance) program . . ." Agency officials have stated that the hardware and software already purchased will be used with whatever system is finally selected.

In some instances component agencies had not adequately analyzed or justified acquisitions to Labor because the Department had not exercised a strong central review function for assessing their requests. For example, during a recent moratorium on unplanned ADP acquisitions reported to the Congress, the Department allowed agencies to submit ADP requests and receive approval by supplementing agency annual advance procurement plans to add the unplanned items. This is not to say that all proposed acquisitions were inadequately justified. As the Department began to better review planned acquisitions, agencies found that inadequately justified proposals were returned without action. For example, one ETA request for procurement of enhanced telecommunications services had to be returned to the agency by DIRM because it lacked the GSA-required

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analyses. With the reorganization of the DIRM, we believe that a structure now exists to provide proper review and approval of all major acquisitions.

Needs and user requirements assessments

A more stringent departmental review of the agencies' assessment of needs and user requirements might have improved ETA's purchase of equipment and software for the Distributed Computer Network. ETA over the years has acquired hardware for its network which supports many of the agency's information needs. From an ETA listing of offices with codes authorizing access to the network, we selected and contacted 15 offices. Most ETA users told us that while the network has a wide array of capabilities, their needs were not being met and that an adequate user requirements assessment had not been conducted. One user indicated his staff used the system only about 10 percent of the time because the staff prefer to rely on simpler, more accessible word processing hardware. Other individuals told us they use the network primarily for electronic mail, only one of its many capabilities. In February 1985, OMB instructed the Department that no further expenditures on ETA's systems should be made until certain planning requirements were fulfilled. We believe needs and user requirements analyses should support all major acquisition proposals and agency surveys of systems use could enable the agency and Department to identify and reallocate resources where possible.

Adequate support for cost/benefit analyses

A critical departmental review of ESA's cost/benefit analyses might have helped the agency. ESA is acquiring a replacement system with a life-cycle cost estimated to exceed $74 million to support the Federal Employees' Compensation System and further automate and integrate a number of program tasks. At the time of ESA's original study, annual cost savings were estimated at about $60 million. However, support for savings estimates was cursory. One area is the assertion, for which no analysis supporting the estimate was provided, that 50 percent of the federal employees' compensation claims submitted with inadequate medical rationale, if rejected, would not be resubmitted by the claimants. ESA acknowledged that some valid claims might be eliminated in this process; however, if the claims with inadequate medical rationale could be identified by the system and acted upon by the agency, ESA claimed that withholding payment on these cases could result in a 50-percent cost saving for this type of claim deficiency.

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With the project now experiencing over 500 changes, cost escalations, and an additional year delay in coming into full operation, ESA has decided to update the cost/benefit analysis. We believe that the Department should provide a careful review of the revised analysis.

Live test demonstrations

The Department did not enforce the need for a live test demonstration in the major acquisition related to the OSHA Integrated Management Information System. An accepted means for assuring that the contractor delivers the same equipment and software that were proposed is to require a live test demonstration. Although not required by law for a project of this size (about $7.5 million), a live test demonstration is a widely accepted method of validating system performance and cost in the federal ADP procurement process.

While such a test had been planned on a tentative milestone schedule, an OSHA official stated that the test was waived in part because: (1) OSHA spent a great amount of time evaluating the contractor's specifications and was confident that there would be no insurmountable problems and (2) OSHA wanted to avoid the approximate 1-month delay that would have resulted since the contractor would have to deliver and test the equipment. A Labor procurement official told us that he recommended that the test not be waived because of the contract's size; however, he said that the contracting officer elected to accept OSHA's recommendations to waive the requirement for a live test demonstration.

The absence of the live test may have contributed to the high frequency of hardware and software developmental problems that OSHA has encountered. While to date the hardware and software problems have not seriously hampered the system's implementation, the tentative installation milestones have slipped by about 6 months. We believe the agency's election to waive the live test in opposition to the departmental recommendation shows the Department's limited influence over the agency. Although OSHA believes its decision to proceed without a live test demonstration was appropriate, we believe the live test could have lessened the amount of delays and extra work OSHA staff have had to perform in the enforcement program if the system had become operational as scheduled.

Consideration of
systems compatibility

Systems compatibility and interoperability had not been primary concerns of the Department under the decentralized

approach. This has manifested itself in the diversity of ADP architectures and environments throughout the Department. Labor's draft strategy establishes a goal of improving systems compatibility. The Department has millions of dollars invested in these systems, and compatibility and interoperability can not be achieved quickly. As new and upgraded systems are acquired, the Department should review and require adequate justification for any incompatible and stand-alone systems.

Even at the Department level, a diversity of systems is occurring with the acquisition of the new personnel system operating in a Burroughs environment while generally departmental systems are operating in an IBM environment. In adopting the new personnel system, which is incompatible with other departmental systems, the Department has accepted certain costs and risks. For example, before the decision to implement the Burroughs environment personnel system, Labor acquired terminals to handle a number of administrative functions, including its personnel system. Labor later found that the terminals were incompatible with its new system and used the terminals in support of other administrative systems. In addition, the Department is now dependent upon the Air Force (developer of the personnel system) and the Navy (operator of a Burroughs computer in Oak Ridge, Tennessee, which has excess capacity). These agencies are providing system maintenance and computer support for the personnel system. Labor has not prepared contingency plans so that it can operate the system if the Air Force or Navy terminates the support.

System incompatibility adversely affected the integration of the personnel and payroll functions. Under Labor's previous personnel system the payroll function directly used information entered in the personnel system data base in generating payroll update files. Since the personnel system was designed as a stand-alone system, the Department must develop, test, and place in operation an automated interface. The Department has initiated an effort to interface the systems; however, currently the Department, with the new system, is operating a separate system for the payroll. This will require a process of continuing reconciliation to reduce the potential for errors.

The lack of interoperability of ETA's Digital Equipment Corporation environment with the departmental systems caused additional work in inventorying the agency's IRM resources. ETA maintains a record of hardware on its computer system network; however, ETA was not maintaining the same data elements in the same format as the Department and had to rekey all this information into the Department system to develop the departmental inventory.

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Recommendations to the Secretary of Labor

We recommend that the Secretary:

--Direct the senior IRM official, the Assistant Secretary for Administration and Management, to (1) complete the development of a departmental strategy and ADP/telecommunications plan leading to a departmental plan for IRM; (2) improve guidance on conducting inventories and monitor the process of taking the inventory; (3) adequately review and approve/disapprove agency plans, systems needs, requirements, cost/benefit analyses, and proposed deviations from generally accepted testing procedures before systems are acquired or accepted; (4) periodically conduct IRM reviews covering, among other areas, system utilization and potential for functional consolidation; and (5) assess staffing needs to fulfill increased responsibilities.

--Hold the senior IRM official and other appropriate managers, including program assistant secretaries, accountable for (1) carrying out departmental IRM planning and acquisition requirements, including preparing adequate plans and accurate inventories; (2) preparing adequate needs, requirements, and cost/benefit analyses before systems are acquired; and (3) taking appropriate action to periodically review system utilization and avoid unnecessary duplication of equipment and systems and enhance systems compatibility and interoperability within Labor.

Agency comments and our evaluation

Labor agreed with our recommendations and has initiated several actions to improve IRM management. For example, it has begun reexamining and revising its overall IRM strategy by establishing a new decision-making process to strengthen management of information resources and use of information technology. A study of Labor's telecommunications traffic and requirements is underway. An improved acquisition review process is being implemented. Additional improvements are being planned, including ways to increase the level of technical expertise and to develop a method for sharing ADP technical expertise across agency lines. Labor is also acting to improve the accuracy and completeness of its IRM inventories. We believe the actions planned or initiated are responsive to our recommendations and should greatly enhance Labor's IRM management.

	AVOID CRISES AND CREDIBILITY PROBLEMS THROUGH BETTER CONTROL
PROBLEMS	o MSHA noncompliance could affect miner health and safety. o Limited monitoring of pass-through funding could result in fraud and abuse and embarrassment. o Many managers believed audits, reviews, and evaluations were not always useful in resolving problems. o Department-wide decline in program evaluation activity.
RECOMMENDATIONS	o Improve data on mission attainment. o Better use FIA and other oversight processes to identify vulnerable areas and follow up. o Address program managers' negative perceptions regarding audits, reviews, and evaluations. o Reassess the emphasis given to the Department's program evaluation efforts.

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SECTION 3: AVOID CRISES AND CREDIBILITY

PROBLEMS THROUGH BETTER CONTROL

The Office of the Secretary has not always received sufficient data on performance; nor has it received, in our opinion, reliable information on the internal control weaknesses of the Department's programs under FIA. Most importantly, however, it has not always had an effective means for making sure that management systems are effective and people are held accountable for achieving desired results and adhering to departmental policies.

In addition to the steps we have already recommended, Labor needs to:

--Obtain better information on mission attainment for program activities, such as MSHA's mine inspections and the accuracy of UI payments.

--Make better use of the FIA process by ensuring that all program activities are covered and properly assessed for potential vulnerability and appropriate actions are taken if assessments show problems.

--Address program managers negative perceptions about the usefulness of audits, reviews, and evaluations in identifying and resolving problems and assess the need for increased emphasis on evaluation as a tool for helping to better control operations.

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ELIMINATE MSHA INSPECTION SHORTFALL

CHALLENGE: Conduct 18,000 mandatory surface mine inspections annually.

PROBLEMS:
- o Only about 60 percent of mandatory inspections done.
- o Insufficient field inspection staff.
- o Staffing imbalances among district offices.
- o Substantial inspector time spent on other activities.
- o Inadequate information system.

RECOMMENDATION:
- o Emphasize mandatory inspections, assess productivity, and improve information.

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ELIMINATE MSHA INSPECTION SHORTFALL

Section 103(a) of the Federal Mine Safety and Health Act of 1977 places a requirement on MSHA to conduct health/safety inspections of surface and underground mines. This section of the act calls for at least four regular inspections annually of underground mines; it also calls for at least two regular inspections per year of surface mines. MSHA's inspection plans provide that seasonal or intermittent mines are to be inspected on a reduced basis. In addition to the requirement for regular inspections, there are other mandatory activities required by the 1977 act. These include accident investigations, hazard complaint inspections, discrimination complaint investigations, and gaseous mine inspections. In addition, MSHA has also implemented several special programs to meet the requirements or objectives in the act aimed at improving mine safety and health. These include compliance assistance visits to provide technical assistance to newly opened mines and safety program development at mines with high accident and injury levels.

MSHA data showed that the agency was not meeting the act's requirements for regular health/safety inspections. Although there is a problem in both coal[1] and metal/nonmetal mines, the more serious problem is in the metal/nonmetal mine program. MSHA data showed that in fiscal year 1984 there were 13,100 full- or part-time metal/nonmetal mines in operation. This total is made up of four types of mines, as shown in table 3.1.

Table 3.1

Types of Metal/Nonmetal Mines in Operation

Mine type	Number of mines
Underground full-time	272
Underground part-time	330
Surface full-time	5,423
Surface part-time	7,075
Total	13,100

[1]For fiscal year 1984, the average coal underground mine was inspected 3.95 times; the average surface coal mine was inspected 1.80 times. Since there are small numbers of seasonal mines in these totals, the shortfall is not substantial.

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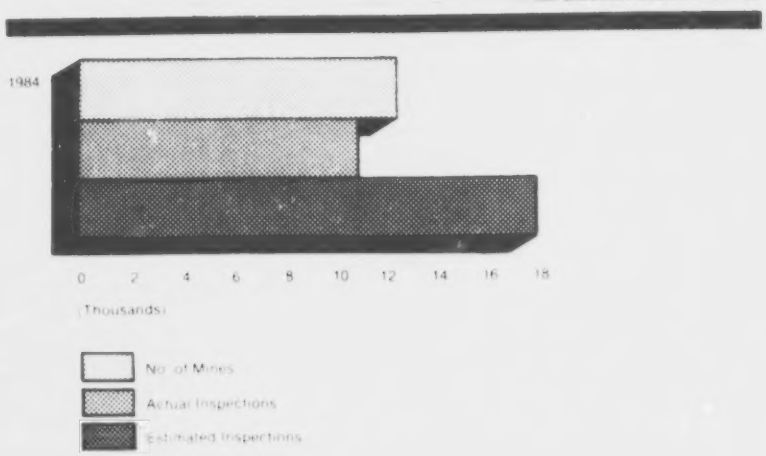
In fiscal year 1984, the average number of inspections per metal/nonmetal underground mine (full- and part-time together) was 2.61. If all underground full-time mines were inspected four times a year, and part-time twice a year, the average should be 2.9. This reflects a 90-percent coverage of existing underground mines. The average number of inspections per surface metal/nonmetal mine in fiscal year 1984 was 0.87. According to MSHA plans, it should have been at least 1.4 per mine. This reflects only a 62-percent coverage of existing surface mines (although it covers about 90 percent of mine employees).

If each full-time surface mine were inspected twice a year according to the act, there should have been 10,846 regular inspections. If each part-time surface mine were inspected only once, according to MSHA policy, there would have been an additional 7,075 regular inspections, for a total of 17,921 regular inspections. However, MSHA data showed that only 10,823 regular inspections (or about 60.4 percent) of the required total had been performed during fiscal year 1984. (See figure 3.1.)

Figure 3.1: Metal/Nonmetal Surface Mines Actual and Estimated Required Inspections



In addition, our review indicates that a similar condition existed in calendar year 1983. Of more immediate concern, MSHA's 1985 plans called for the agency to conduct no inspections on 4,548 mines. Of the 5,504 surface full-time mines reported in MSHA's planning as of August 1984, MSHA planned to conduct the required two regular surface inspections on only 3,220 mines (a shortfall of 2,284 mines). MSHA agrees that there is a shortfall but that it will be less than the above number because the number of operating mines has been decreasing and because MSHA will give greater emphasis to regular inspections.

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MSHA has instructed its managers to rank the safety and health conditions of all mines in their districts and schedule inspections in the most hazardous mines according to this ranking. Examples of situations in the three metal/nonmetal districts we visited follow:

--MSHA's Southeastern District conducted only 70 percent and 68 percent of the required regular surface inspections in fiscal years 1983 and 1984, respectively.

--The Western District conducted only 66 percent and 69 percent of the required regular surface inspections in fiscal years 1983 and 1984, respectively. For fiscal year 1985, the Alameda field office planned to inspect all 102 of its full-time surface mines at least twice, but did not plan any inspections for 73 of its 128 part-time surface mines.

--For fiscal year 1985, the South Central District's Dallas and Rolla subdistricts planned to inspect only 983 of 1,697 full-time metal/nonmetal surface mines in their areas twice as required by law.

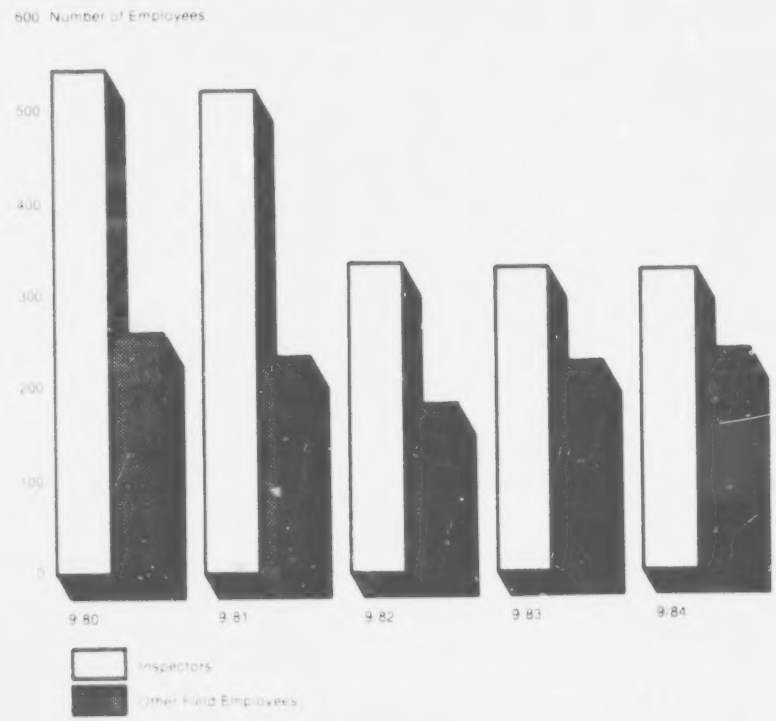
This shortfall may have affected the health and safety conditions in metal/nonmetal mines. We cannot quantify this impact in terms of projected fatalities and injuries. It appears, however, that MSHA would be missing a substantial number of violations annually by not inspecting mines as frequently as required or at all. MSHA has stated that because the noninspected or underinspected mines are generally smaller operations with below-average injury rates than those that are more frequently inspected, it is not likely that inspections of these mines would result in as high a ratio of violations per inspection as the mines that have been inspected.

Factors contributing to inspection shortfall

The shortfall in required regular inspections appears to result from several factors. These include a substantial reduction in the number of inspectors; the extent to which inspectors devote time to other types of inspections or activities; imbalances in geographic location of inspectors; limited emphasis given to conducting required regular inspections by MSHA; and the lack of a reporting system comparing the required, planned, and actual number of inspections. Each of these is briefly discussed below.

--From fiscal year 1980 to fiscal year 1984, the number of metal/nonmetal mines in operation dropped from 14,341 to 13,100, a 9-percent decrease, according to MSHA records. However, the number of inspectors during the same time period dropped from 541 to 323, a decrease of 40 percent, as shown in figure 3.2. Miner employment dropped from 303,085 to 218,036, a decrease of 28 percent, in the same period.

Figure 3.2: Metal/Nonmetal Field Employment Fiscal Year End 1980-1984



--Regular inspections for surface and underground mines in the same period decreased from 18,218 to 12,396, a decrease of 32 percent. The number of inspectors who are authorized to do regular inspections, as a percentage of total field employees, has also dropped (between fiscal year 1979 and fiscal year 1984 from 71.5 to 58.1 percent).

--In addition to regular inspections, MSHA inspectors perform other types of inspections and activities, reducing the time available for regular inspections. For example, in fiscal year 1984, MSHA data show that 17,274

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other types of inspections were conducted. MSHA data also show that inspectors spend about 40 percent of their work time on regular inspections and the remainder on other types of inspections, training, etc. During fiscal year 1984, MSHA reported making 2,804 attempted inspections at mines that were not operating when inspectors arrived, but this situation has always been a factor for MSHA even when it was conducting substantially more regular inspections.

--The changing economy in metal/nonmetal mining has had a serious impact on inspection coverage. A decrease in metal/nonmetal activity in the west and southwest has greatly reduced the number of hours worked in mines in those districts. The head of MSHA's metal/nonmetal program told us that he saw a real need for a realignment of metal/nonmetal inspectors between districts and areas of the country.

--There has been only a limited emphasis by MSHA on ensuring that required mine inspections are conducted. Many district and subdistrict plans for fiscal years 1984 and 1985 called for less than required inspections to be conducted. Yet, many of these plans were approved by MSHA headquarters although they specifically planned for shortfalls. MSHA's planning system is based on the number of inspections and the time necessary to inspect rather than the required number of inspections. Further, MSHA does not hold its managers accountable for performing required inspections in their performance standards.

--MSHA has a reporting system which shows planned and actual inspections, but does not show the number of required inspections. Therefore, neither Labor's top officials nor others can easily compare the number of planned, actual, and required inspections. Further, MSHA has not been reporting the numbers of required inspections to the Congress. MSHA points out that these comparisons could be made by using data contained in different reports and materials. This is not as easy as MSHA portrays, however, because of assumptions that have to be made on required inspections for part-time mines.

MSHA's comments and proposed actions

In commenting on the inspection shortfall, MSHA officials stated:

--They made a deliberate decision to pursue regular inspections at those operations with the greatest potential for violations. In addition, they believe their

emphasis on more dangerous mines and their emphasis in certain areas, such as accident reduction, outweigh any possible adverse effects of the shortfall in regular inspections.

--They have agreed to reassess their reporting system, specifically looking at the need to reflect required inspections.

--They agree that a shortfall exists, but do not believe it will be as large as we projected for fiscal year 1985. After we brought this shortfall to MSHA's attention, it began to update its mines inventory and said that the number of operating mines in its inventory was overstated because many had closed since being listed. (As of July 1985, MSHA had not completed its update.) Further, they believe that it is not possible to develop a complete, accurate count of the number of mines because many mine operators do not comply with regulations requiring them to report openings and closings.

--MSHA stated that most uninspected mines were smaller (four or fewer employees), less hazardous, and operated intermittently for short periods or, in some instances, not at all during any given year. It is difficult to inspect these type of mines because MSHA cannot (by law) call ahead to see if the mine is operating, and it would take a substantial resource level to make continuous attempts to visit the mines when they were operating.

--MSHA has stated that it has attempted to reduce the inspection shortfall and meet legal requirements as evidenced by the more than 2,800 "attempted" inspections in 1984. While this is true, it is also true that average regular inspections per metal/nonmetal mine annually is down from 1.55 in fiscal year 1980 to 0.95 in fiscal year 1984.

Although MSHA has not emphasized compliance with the act's regular inspection frequency requirements, it has taken a number of actions to enhance mine safety. For example, it has targeted its inspection efforts toward the most hazardous mines and has incorporated expectations in many of its managers' individual performance standards aimed at reducing mining injuries and fatalities. In addition, the Assistant Secretary personally monitors reports of injuries and fatalities to identify causes and initiate corrective action, as appropriate.

MSHA officials believe that their actions have been a major factor in the 35-percent decrease in mine fatalities and injuries

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since 1979. Although we do not take issue with this belief, we noted that the number of mine hours worked has declined substantially--32 percent--since 1979 and that this could also be a significant factor in improved mine safety. According to a United Mineworkers official, reduced mining activity contributed to improved safety rates because smaller, more dangerous mines were closed and less experienced, more accident-prone miners were let go.

MSHA officials believe that they can best use their resources by targeting their efforts on the most hazardous mines and that the inspection frequency required by the act is not the most efficient way to improve overall mine safety. In 1983 MSHA and Labor sought proposed legislation that would have given MSHA more flexibility on inspection frequency. This proposal was not adopted by the Congress, and MSHA and Labor have not sought such a legislative change since that time.

Recommendations to the Secretary of Labor

We discussed our findings on the MSHA inspection shortfall several times during the course of the review with MSHA officials. MSHA agreed to take a variety of steps to improve compliance. To ensure that appropriate corrective actions are taken, we recommend that the Secretary direct the Assistant Secretary for Mine Safety and Health to:

--Revise MSHA's information system to provide periodic reports showing the number of inspections required, planned, and performed during the year.

--Direct MSHA's field managers to give more emphasis to mandatory inspections.

--Identify ways to improve productivity (particularly that of the inspectors).

--Explore the feasibility of reallocating staff among district offices.

--Determine whether additional inspectors will be necessary to conduct the required number of inspections and if so, take appropriate steps to secure the additional number needed.

In addition, we recommend that the Secretary periodically track MSHA's progress and provide whatever support is necessary to enable MSHA to comply with the law. For the long term, the Secretary could consider again seeking legislation amending

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section 103(a) of the Federal Mine Safety and Health Act to give MSHA more flexibility in determining the frequency of regular inspections based on such factors as injury and fatality rates, nature of mining operations, previous compliance status, and the number of miners employed.

Agency comments and our evaluation

Labor generally concurred with our recommendations and agreed to take actions which we believe are responsive to them. MSHA said it (1) is updating its mine inventory and improving its information system to show required, planned, and actual inspections, (2) would place more emphasis on mandatory inspections, (3) would study alternatives for improving productivity, and (4) plans to reallocate staff on a gradual and prudent basis as funds permit. Although MSHA believes the changes it is making and plans to make will enable it to carry out the required number of inspections, it agreed to assess its inspection program closely during fiscal year 1986 and to request additional inspectors if it believes they are needed.

MSHA believes our focus on required inspections is too narrow and that rigid compliance with the law's inspection requirements could adversely affect mine safety and health by curtailing other key inspection and safety programs it says have proven effective. We do not dispute the positive attributes of MSHA's multi-faceted approach to improving mine safety and health. In fact, we believe they would be quite reasonable in the absence of the law's current requirements. However, we do not believe that Labor should permit MSHA to disregard legislated minimum inspection requirements. As we suggest in our report, since Labor and MSHA believe that the law's inspection requirements are too rigid, they should seek an amendment to the law providing greater flexibility in this area.

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IMPROVE JTPA OVERSIGHT

CHALLENGE: To maintain public confidence in the integrity of the JTPA program.

PROBLEMS:

- Program monitoring discloses noncompliance but may not surface internal control problems at the service delivery level.
- Financial Integrity Act assessment process did not appropriately consider all necessary factors.
- Questions concerning JTPA audit coverage and timing.

RECOMMENDATIONS:

- Assess JTPA monitoring mechanisms to ensure they are working as designed and that the Department can rely on state monitoring to surface internal control problems. This may require either federal or state testing to determine that the systems operate as designed.
- Improve its vulnerability assessment process to ensure that it is adequate for determining the vulnerability of JTPA.
- Work with OMB to resolve state officials' concerns regarding JTPA audits at the state and service delivery levels.

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IMPROVE JTPA OVERSIGHT

JTPA (29 U.S.C. 1501-1781) established a program to provide federal assistance to state and local job-training programs. Although JTPA was not expressly designated as a block grant program, it is similar to block grants in terms of the high degree of autonomy given to state and local officials in implementing and administering the program.

Under JTPA, the governor of each state requesting federal assistance is required to appoint a State Job Training Coordinating Council. The Coordinating Council recommends to the governor a governor's coordination and special services plan, which establishes criteria for coordinating and planning job-training activity at the state and local level and recommends substate service delivery areas, at which level the job training programs are to be conducted. The Coordinating Council does not operate programs or provide services directly to eligible participants; rather, it functions solely to plan, coordinate, and monitor the provision of those services. Upon approval by the governor, the plan is then submitted to the Secretary of Labor for approval.

Within each designated service delivery area under the Governor's plan, a Private Industry Council is established. This council determines how a job training plan for that area will be developed and selects the entity that will receive funding from the state to conduct and administer the job training plan for that area. Any job training plan for a service delivery area must be approved by the Private Industry Council and the chief elected official before it can be submitted to the state for approval. The Private Industry Council is also authorized to provide oversight of the job training programs conducted under its plan in its service delivery area.

Allocation of funds to the states (grantees) by the Secretary of Labor for the purpose of conducting JTPA programs is based upon a formula which considers the numbers of unemployed and economically disadvantaged persons residing within the state. Consistent with a similar formula for the allocation of JTPA funds to service delivery areas within the state, the governor of each state is then responsible for the allocation of funds to the service delivery (subgrantee) level.

Under JTPA's general program requirements, each administrative entity responsible for the allocation of funds and the eligibility of persons enrolled in its programs has the responsibility to take action against its subcontractors, subgrantees, and other recipients to eliminate abuses in the programs they are conducting and to prevent the misuse of funds.

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In addition, provisions governing the fiscal administration of the program specifically charge each participating state with responsibility to establish "such fiscal control and fund accounting procedures as may be necessary to assure the proper disbursal of, and accounting for, federal funds paid to the recipient . . ." (29 U.S.C. 1574(a)(1)). States are required, at least every 2 years, to prepare or have prepared an independent financial and compliance audit of each recipient of federal funds. The governor has authority to take corrective actions, including the revocation of plan approval, if a substantial violation of JTPA or its regulations is found.

JTPA gives the Secretary of Labor authority to monitor all recipients of federal assistance under the act. Also, it requires him to conduct compliance evaluations each fiscal year in several participating states to determine how federal funds distributed under this program are used (29 U.S.C. 1575(b)(1)). In addition, where the Secretary finds funds are not being spent in accordance with the act's requirements, he is authorized to offset such amounts against any other amounts the recipient is entitled to or, in the case of willful violations of the act or gross negligence, to make the recipient liable for the repayment of such amounts from funds other than those received under JTPA. This authority extends to both grant recipients (generally the states) and to their subgrantee service delivery programs.

The Department of Labor's monitoring is intended to ensure that required fiscal control and administrative systems are in place and functioning at the state level. In recognition of the high level of operational and administrative autonomy given to states under JTPA, Labor relies heavily on state and local entities to provide assurance that systems are functioning properly at the service delivery level. However, there is concern that the Department's current monitoring of state fiscal control and administrative systems may not be sufficient to ensure that the systems satisfy requirements imposed by JTPA and Labor and are able to detect internal control problems at the service delivery level.

Contributing to the demise of the CETA program, which was replaced in October 1983 by JTPA, was the loss of public confidence due to the numerous reported cases of fraud, waste, and abuse. Most of the CETA abuses occurred at the service delivery level. Under CETA, services were delivered locally by prime sponsors that were accountable to Labor. Under JTPA, the federal role in program administration is greatly reduced and more responsibility is placed on the state working through local government and private sector organizations to provide services locally. Many JTPA service deliverers also helped provide CETA services.

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GAO's September 28, 1984, report, Strong Internal Controls at Service Delivery Level Will Help Prevent CETA-Type Fraud and Abuse in Job Training Partnership Act Programs (GAO/AFMD-84-62), concluded that the fraud and abuse problems that hampered effectiveness and adversely affected the public perception of CETA were due largely to weak internal controls primarily in the accounting and reporting functions at the service delivery level. For example, in the area of control over cash and negotiable instruments, a service delivery level chief financial officer embezzled about $750,000 due to a lack of segregation of duties.

Program monitoring discloses noncompliance but may not detect internal control problems

Labor's monitoring guidance is designed to determine whether state systems comply with the law and regulations and does not always require testing of transactions to ensure that these systems are working as intended.

OIG's initial report on JTPA (Oct. 1983) disclosed that many state systems needed further development. As a result, ETA agreed to review all entities to, among other things, determine if all necessary systems were implemented and working effectively. ETA's initial follow-up (Oct. through June 1984) did not include a review to assure that the procedures for state fiscal control and administration were fully implemented and working effectively.

Labor's June 1985 quarterly compliance review tracking report disclosed problems with state noncompliance in several areas, such as financial management, cash management, and monitoring systems. For example, one state did not have a system to assure corrective action on problems found. Another state's monitoring system was incomplete; it did not address services to target groups. We also observed that Labor did not always test transactions at the state or service delivery level to ensure that state fiscal control and administration systems are not only in place but also working effectively.

On July 18, 1985, Labor issued revised guidance for program year 1985 JTPA oversight which requires on-site visits to a sample of service deliverers. The guidance stated that the visit should not be considered as a compliance review of the service deliverer, but rather as a part of the state level review to determine if state systems and programs are functioning as designed. In commenting on this guidance, an ETA official indicated that the revised monitoring guides call for more detailed testing of state systems than the initial guidance.

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Moreover, OIG is reviewing internal control systems as part of its oversight of JTPA. In fact, OIG is currently reviewing service delivery level operations to determine whether there is adequate separation of duties to minimize fraud and abuse in financial operations.

We also found that the Department's application of FIA may not adequately determine the vulnerability of the state fiscal control and administrative programs. Further, questions regarding audit coverage and timing persist.

FIA assessment process may not have resulted in appropriate vulnerability assessment ratings of JTPA

FIA requires the head of each executive agency to establish and maintain systems of accounting and internal controls that provide, in accordance with the Comptroller General's standards, effective control over, and accountability for, assets for which the agency is responsible. These controls are to reasonably ensure (1) obligations and costs comply with law, (2) assets are safeguarded, and (3) funds are properly accounted for. To meet this requirement, the Congress envisioned--and the Comptroller General's Internal Control Standards require--agencies to identify specific internal control objectives for each major activity or function and appropriate techniques to achieve these objectives. Each agency is to tailor both the objectives and techniques to its own programs and operations. The techniques, such as program monitoring and independent audits, must provide reasonable--although not absolute--assurance that the objectives are met.

While FIA does not address the extent to which it applies to federal agencies administering grant programs, it is within the contemplation of the act and implementing regulations that agencies will identify specific internal control objectives for their grant programs and, to the extent necessary, reasonably fashion and monitor their grant agreements in a manner that seeks to achieve the specific control objectives identified by the agencies.

Application of FIA to the JTPA program is complicated, however, by provisions in the enabling legislation which provide a high degree of autonomy to state (grantee) agencies, which are in turn charged with the design, fiscal control, and administration of service delivery programs at the local level (subgrantees). JTPA's legislative history clearly indicates that these provisions were expressly intended by the Congress to reduce the level of federal administrative oversight and,

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presumably, interference in the operation and administration of job training programs at the state and local levels.

However, while grantee states do possess substantial autonomy in the design, operation, and administration of JTPA programs, the act gives the Department both the authority for and the ultimate responsibility of ensuring compliance by the grantee states with the statutory and regulatory requirements of JTPA (29 U.S.C. 1573,1575). Apparently, Labor agrees that FIA applies to the JTPA program and assesses direct federal operations and systems to provide assurance that Labor is protected from fraud. However, Labor does not assess for FIA purposes the vulnerability of state and local systems. To the degree that the Department has the statutory responsibility to ensure compliance by grantees, we believe that Labor's FIA program must also include an assessment of the degree to which states fulfill their obligations to Labor imposed by law and regulation.

Since the states must have fiscal controls that meet certain standards, Labor should include in its FIA evaluation an assessment of whether those controls satisfy specified standards. This is something that can be accomplished only by considering information on activities conducted below the state level, regardless of whether the review producing the information is conducted by Labor, the states, or others. Although an improper subgrantee activity may not, in and of itself, reflect an internal control weakness in Labor's system, such a weakness may exist if the improper activity is attributable to the state's fiscal control system not complying with statutory or regulatory requirements that Labor did not discover or correct.

We believe that the correct posture for the Department to ensure compliance with the requirements of FIA is to identify specific internal control objectives and perform vulnerability assessments of the techniques used by grantee states to comply with statutory requirements and conditions imposed by the Department by grant agreement or otherwise. If warranted from the results of the vulnerability assessments, a more detailed review should be undertaken to include monitoring and evaluation of the effectiveness of the grantee's fiscal control and administrative programs and would necessitate, under some circumstances, an examination of a sample of service delivery subgrantees' activities in order to evaluate the state's ability to identify and correct problems arising at the service delivery (subgrantee) level.

We do not believe Labor's vulnerability assessment for JTPA appropriately considered all factors necessary to accurately assess the program's vulnerability. We reviewed vulnerability ratings for the JTPA grant function and found no high ratings. According to ETA officials, their vulnerability assessments were

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prepared with respect to federal functions and not with respect to possible vulnerability at the state and local levels. Furthermore, they indicated that the instruments they used to determine vulnerability of the functions were not conducive to adequately measure vulnerability of JTPA because the program is being implemented as a block grant.

We have concerns regarding Labor's application of FIA to JTPA and the resulting vulnerability assessments. Regarding the general control component of Labor's vulnerability assessment, which focused mainly on the level of awareness of the need for good internal controls, ETA officials felt this component should lend itself to a relatively low score. In our opinion, since the Department has gone on record as listing the documentation of its systems of control as a material weakness, the general control environment should have received higher scores. Regarding inherent risks, the following factors, among others, indicate JTPA is a highly vulnerable program: JTPA services are provided by many of the same entities that delivered services under CETA, large amounts of money are involved ($1.9 billion), and administrative and accounting systems are outside the Department's direct control.

ETA officials also felt that the preliminary evaluation of safeguards was not applicable to JTPA since there were no audits done and no grants closed out. In our opinion, this element of the assessment is especially applicable given the previously reported problems under CETA and the lack of current audit results. Further, audit is only one aspect of safeguards; program monitoring is another control technique that should have been assessed. In fact, we believe Labor needs to assess the extent to which all control techniques relied upon provide reasonable assurance.

Even though there were no high vulnerability assessment ratings, ETA has begun reviewing the grants management function of some national programs and has requested corrective action plans for those areas that were rated as having medium vulnerability. While we are encouraged that Labor is taking these steps, we have concerns about how the assessments were done and about the usefulness of the assessment instrument itself in assessing the potential vulnerability of JTPA.

Questions concerning JTPA audit coverage and timing

Initial implementation of JTPA audit requirements was based upon OMB Circular A-102 (Attachment P) and OMB's Block Grant Framework Paper. In addition, JTPA legislation contains audit requirements. Conflicts and confusion have arisen among the various levels of JTPA recipients in trying to resolve differing criteria.

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In our March 15, 1985, report on Block Grants, State Rather Than Federal Policies Provided the Framework for Managing Block Grants (GAO/HRD-85-36), we reported that many state officials felt that differences between OMB Circular A-102 (Attachment P) and the individual block grant requirements (i.e., audit scope, frequency, coverage of subrecipients, and the costs of performing audits) complicated their efforts to cover block grants as part of broader single audits of state agencies. Federal and state officials we interviewed expressed similar concerns regarding JTPA audits because the program is being implemented as if it were a block grant. They told us they are not sure about audit timing or proper report format.

Regarding timing, they have questions as to when the first JTPA audits are due. They also are unsure whether one state audit report covering the entire state operation will meet the audit requirements of JTPA or if there should be separate reports on the state and its service delivery levels. In our discussion with Labor officials, they agreed that there has been confusion regarding JTPA audits. OIG's April 1 to September 30, 1984, semiannual report pointed out some of the conflicts that have arisen among various levels of JTPA recipients in attempting to reconcile the audit requirements of the act, regulations, Circular A-102, and OMB's Audit Framework Paper. For example, ". . . a state government may require specific audits of its JTPA subrecipients, but a local unit of government may not desire to participate since the local government is being audited under the single audit concept of OMB Circular A-102, Attachment P."

The Single Audit Act of 1984 is effective for audits of fiscal years beginning after December 1984. The Single Audit Act eliminates the differences in federal audit policies by creating one standard audit requirement for federal assistance, including block grants, to state and local governments. This act addresses key state concerns about block grant auditing, and should, once properly implemented, promote simplified auditing of block grant funds through a single, uniform framework.

Recommendations to the Secretary of Labor

Labor has met all significant startup time frames and has been working to ensure that the states have adequate systems in place to operate the program. The Department now needs to assess its JTPA oversight mechanisms to determine whether vulnerable areas will be disclosed and corrective action taken. We recognize that JTPA's provisions place substantial authority for fiscal control and program administration of the service delivery programs with the grantee states. However, the Department does retain both the authority and the final responsibility to ensure

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compliance by the grantee states with JTPA's statutory and regulatory requirements.

We recommend that the Secretary direct the Assistant Secretary for Employment and Training, in cooperation with OIG and other appropriate departmental officials, to:

--Assess JTPA monitoring mechanisms at federal and state levels to ensure they are working as designed, are adequate to ensure that state fiscal control and administration program will be able to identify and correct internal control problems if they still exist, and provide reasonable assurance that federal and state control objectives are being achieved.

--Improve its vulnerability assessment process to ensure that it is adequate for determining the vulnerability of JTPA.

--Work with OMB to resolve state officials' concerns regarding JTPA audits at the state and service delivery levels.

Agency comments and our evaluation

In commenting on our draft report, Labor agreed that there has been confusion on JTPA audit requirements and said it is working with OMB and the states to resolve concerns about audit coverage and timing. On the other hand, Labor believes that JTPA monitoring and oversight activities related to state activities are adequate and that while improvements can be made, its oversight is adequate to provide reasonable assurance that internal control objectives are being met under FIA. Labor said that its vulnerability assessments for JTPA were conducted for federal activities, but acknowledged that some problems do exist with the application of vulnerability assessment instruments at the regional level. Labor also pointed out that its July 1985 revisions to the JTPA oversight guidance strengthened its monitoring effort at both the state and service delivery levels, such as by focusing review efforts on certain problem areas. In addition, ETA said that it had initiated discussions with OIG on the feasibility of conducting joint reviews of internal control systems of selected states and local service delivery agencies.

We believe that Labor's July 1985 revisions to its JTPA monitoring guidelines, if appropriately implemented, should strengthen its oversight efforts and that joint ETA and OIG reviews of selected state and local internal control systems, if

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they can be arranged, should also enhance both programmatic monitoring under JTPA and Labor's FIA implementation. However, we continue to believe that Labor needs to improve its internal control evaluation process under FIA.

To adequately assess vulnerability to fraud, waste, or abuse and the adequacy of its internal controls covering JTPA, Labor must consider information on the operation of existing controls, including oversight mechanisms, at the federal and state levels, regardless of the sources of this information. These sources could include ETA monitoring, GAO or OIG reports, reports of state monitoring efforts, internal control evaluations under FIA, or other audits or studies. Regardless of the method used to fully evaluate Labor's controls, testing is an indispensible component in any system review. In the case of a grant program like JTPA, this would require testing of Labor's controls to ensure that they are adequate to identify problems at the state level. This requires some testing of operating systems at the state level. Otherwise, officials responsible for JTPA management would not have reasonable assurance that federal funds are being spent properly. In addition, to enhance the accountability envisioned by FIA, Labor should include in its annual FIA report any material internal control problems it is aware of, regardless of how they are identified.

The Department's first FIA report recognized this concept of using information from diverse sources as a basis for determining the adequacy of oversight mechanisms. For example, in this FIA report, Labor disclosed that the UI program lacked an adequate quality control program and recommended that ETA develop one. The reporting of this weakness stemmed from OIG audits which disclosed numerous internal control problems in state UI operations. In this case, while ETA did not identify these problems through its own system evaluation, the Department reported the need for a quality control system based on information obtained from OIG. To the extent that reviews by others identify state or service delivery level problems which are indications of federal control weaknesses, the problems need to be considered in Labor's internal control evaluation process, including assessing vulnerability, reporting material weaknesses, determining corrective actions necessary, and formulating conclusions on reasonable assurance for annual FIA reporting.

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ENHANCE UI OVERSIGHT

CHALLENGE: To minimize vulnerability to large funds loss through effective oversight

PROBLEMS:

- o Oversight concerns and previously identified problems suggest the need for new approach to oversee UI.
- o Conclusions reached as a result of applying FIA to the UI program are questionable.

RECOMMENDATIONS:

--Develop an oversight strategy that clearly shows how each monitoring mechanism relates, what the results will be used for, and who is responsible for carrying out oversight functions.

--Evaluate the vulnerability assessment instruments and process for UI to ensure they produce reliable results and more completely cover the program in its internal control evaluation program.

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ENHANCE UI OVERSIGHT

The UI system is a federal/state partnership for providing income insurance to unemployed workers, financed by federal and state UI taxes paid by employers. Under the program, funds generated through federal and state unemployment taxes on employers are deposited in the federal "Unemployment Trust Fund." Funds for each state are held under a separate account. Payments are then periodically made from the trust fund to the states from which the states pay unemployment claims under their state unemployment compensation system.

The states have significant discretion in designing and administering their unemployment compensation programs. However, for a state program to be approved by the Secretary of Labor, it must conform to federal requirements. Among the state program elements required for federal approval are: all compensation must be paid through public employment offices or other approved agencies; revenues from state unemployment taxes and other money that is paid into the state unemployment fund must be immediately deposited in the federal Unemployment Trust Fund; and all money withdrawn from the state unemployment fund, other than exceptions specified under federal law, must be used solely for payment of unemployment compensation. Approval of a state program by the Secretary permits employers to credit amounts paid under a state unemployment tax against the amounts that would otherwise be owed under the federal unemployment tax.

Similarly, for states to be eligible to receive federal financial assistance for the costs incurred in administering the state unemployment compensation program, the state program must meet certain federal requirements (42 U.S.C. 502, 503). Included among those requirements are: using methods of program administration that are found by the Secretary to be reasonably structured to ensure full payment of unemployment compensation when due and making reports in the form and containing such information as the Secretary may require. States must also comply with provisions that the Secretary may find necessary to ensure the correctness and verification of those reports (42 U.S.C. 503(a)(1),(6)). Department of Labor regulations require states to maintain a financial management system to provide for adequate control of grant or agreement funds and other assets.

In addition to the unemployment compensation programs enacted by the states and funded principally or exclusively from the revenues generated by state unemployment taxes, federal unemployment compensation programs use federal funds to provide individuals with unemployment benefits. Among these programs

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are unemployment compensation for former federal civilian employees and compensation for ex-servicemembers.

Under these programs the Secretary of Labor enters into an agreement with a state, in which the state, functioning as an agent of the United States, agrees to pay eligible former federal employees (military and civilian) unemployment benefits in the same amount and under the same terms and conditions as would have been available to them under the state's unemployment compensation statute. When the state, the Department of Labor, or a court of competent jurisdiction finds that an individual under this program received benefits to which he was not entitled due to false statement, misrepresentation, or failure to disclose a material fact, the individual is required to repay that amount to the state or to the Department. Under regulations implementing these programs, individuals are liable to repay the state any amount of overpayment, even where it was not due to the false statements or misrepresentation, and states are required to take all reasonable measures under state and federal law to recover the overpayment.

The Department estimates that in fiscal year 1985 the UI program will expend about $18.3 billion, of which $14.3 billion will come from state funds and $4.0 billion from federal funds. The federal trust fund will expend about $2.5 billion in providing grants to states to cover state UI program administrative expenses and $1.4 billion to pay UI benefits to former federal employees, ex-servicemembers, and other special assistance programs, such as Trade Adjustment Assistance.

Paying correct benefit amounts to only entitled individuals is a principal UI system goal. Even under federal unemployment compensation programs involving the expenditure of only federal funds, states are primarily responsible for making correct payment while Labor oversees state use of administrative funds and state payment systems to ensure effective and efficient operations.

The UI program involves substantial expenditures at the state and local levels in accordance with the design of each state's program. While the Department employs several monitoring mechanisms, it has not developed an oversight strategy for programs involving the expenditure of federal funds which interrelates aspects of each monitoring mechanism and fully details the Department's responsibilities for carrying out oversight functions of the state programs. Recent administration proposals to devolve certain responsibilities for the UI program to the states by 1988 make an oversight plan even more critical. Without such a plan, the Department may not have adequate assurance that the state unemployment compensation programs

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involving the expenditure of federal funds are being operated in accordance with the law and regulations.

We identified concerns with the Department's monitoring of the UI program and consideration of the program in its assessments performed under FIA. Addressing these concerns could better identify vulnerable areas and possibly reduce loss of funds and program credibility.

Concerns about current oversight mechanisms and previously identified problems suggest the need for an integrated approach to oversee UI

Labor oversees the UI program through several mechanisms, such as quality appraisals, quality control/random audit, and periodic reporting. However, recent reports have identified many problems in the program at both the federal and the state levels. For example, in our report An Assessment of Random Audit--A New Department of Labor Program to Improve the Accuracy of Unemployment Insurance Benefit Payments (GAO/HRD-84-26, Mar. 30, 1984), we reported that Labor had not determined what its role was regarding the use of random audit data, even though overpayment rates (ranging from 7 to 24 percent in the five states we surveyed) were occurring at rates higher than those reported by the states. We concluded that while Labor was taking some actions, its role was still uncertain and more active oversight was needed to ensure that states act to correct problems identified in random audit. In another report, A Comprehensive Approach Needed for Further Productivity Improvements in the Unemployment Insurance Program (GAO/HRD-85-8, Oct. 25, 1984), we discussed the need to formulate a comprehensive plan to promote productivity improvement and quality in the UI system. In addition, the OIG has issued reports recently which disclosed problems with cash management and payment controls in the UI program.

Due to these reported problems, Labor listed the UI program as a material weakness in its first (Dec. 1983) FIA report to the Congress and the President. The report pointed out the need for a UI quality control system. Consequently, Labor began developing a quality control program. The Quality Control program as designed is essentially an expansion of the random audit program which had been in operation for over 2 years. Random audit was designed to only look at payments, while Quality Control is intended to ultimately look at the quality of both payments and tax collections.

During our review we identified some concerns that state officials have regarding the Quality Control program. Some of these concerns were:

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--States believe the implementation time frames are unrealistic.

--State program managers' involvement in systems planning was limited.

--States believe the system's purpose is unclear and they do not know how Labor intends to use the data.

--The new system may not be any better than the random audit system was in providing information about where or how errors are occurring, because its increased sample sizes still may not be large enough to detect underlying causes.

Additionally, Labor erroneously reported to the Congress that the system was implemented in October 1984. As of August 1985 the system had not been implemented, and the Secretary was assessing the appropriateness and adequacy of the system as an oversight tool. While there are some concerns about the proposed Quality Control program, we fully endorse the overall need for an effective quality control system for the UI program.

Our review also disclosed some shortcomings in the Quality Appraisal program, which is designed to measure and monitor the quality of the UI program, as it is administered by the states and was implemented nationwide in fiscal year 1978. These shortcomings relate to the Quality Appraisal program's performance standards, called desired levels of achievement.

Officials we spoke with felt some states could not meet certain desired levels of achievement because state laws inhibit them from doing so. For example, one desired level of achievement requires states to have only 1 day's cash in their benefit payment account. Hawaii law requires cash to be on hand before checks can be written against the account; however, due to time lapse between when checks are written and when they clear, often there is more than 1 day's cash in the account.

Furthermore, it is not entirely clear how quality control and quality appraisal relate to one another as both look at the quality of some of the same functions. One Labor report did say that quality control's predecessor program, random audit, provided more detail about certain functions with a higher degree of validity than quality appraisal did.

Because of these problems, we believe Labor needs to examine its approach to overseeing this complex program. Adequate planning and clear definition of roles are essential, particularly given the administration's proposal to devolve certain aspects of the program to the states.

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Conclusions reached as a result of applying FIA to the UI program are questionable

We do not believe Labor's vulnerability assessment for UI appropriately considered all factors necessary to accurately assess the program's vulnerability or produce reliable results. As with JTPA, application of FIA to UI is complicated by provisions in the enabling legislation that give the states substantial discretion in the design and administration, including fiscal control, of their unemployment compensation programs. Indeed, a substantial portion of the funds paid out as unemployment compensation are derived from state unemployment taxes on employers, which are then deposited in the federal unemployment trust fund.

However, it is clear that the Secretary of Labor has the responsibility to certify the continuing eligibility of state programs to receive payments from the unemployment trust fund under both 26 U.S.C. 3304 and 42 U.S.C. 503 by reviewing their conformity with federal requirements. Further, whatever question there may be regarding Labor's authority to oversee state UI programs enacted under state law and using state funds, there can be no question that the Department has both fiscal and administrative oversight authority and responsibility for federally enacted unemployment compensation programs and administrative grant programs using federal funds.

Because ETA officials believe state operations are not subject to FIA, they made no determination of the vulnerability of state UI operations. Therefore, the conclusions they reached regarding the vulnerability of the UI program apply only to federal activities. Labor officials also told us that the Single Audit Act of 1984 would cover internal controls at state and local levels and that the states are responsible for assuring that internal control reviews are conducted.

Apparently, the Department agrees that FIA applies to UI and assesses direct federal operations and systems to provide assurance that Labor is protected from fraud. However, Labor does not assess for FIA purposes the vulnerability of state systems. To the degree that the Department has the responsibility to ensure compliance by the states, particularly where states are administering federally enacted unemployment compensation and administrative grant programs using federal funds, we believe that Labor's FIA program must also include an assessment of the degree to which states fulfill their obligations to Labor imposed by statute and regulation.

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Since the states must have fiscal controls that meet certain standards, Labor should include in its FIA review an assessment of whether those controls satisfy specified standards, something that can be accomplished only by some review of activities at the state level. This is especially critical where the states are acting as agents for the United States in administering federal unemployment benefit programs or using federal grant funds to cover costs of administration of the state UI program. Although an improper activity at the state level may not, in and of itself, reflect an internal control weakness in Labor's system, such a weakness may exist if the improper activity is attributable to the state's fiscal control system not complying with statutory or regulatory requirements which Labor did not discover or correct.

We believe that the correct posture for the Department to ensure compliance with the requirements of FIA is to identify specific internal control objectives and perform vulnerability assessments of the techniques the states use to comply with statutory requirements and conditions imposed by the Department by grant agreement or otherwise. This will include, particularly where states are administering federally enacted unemployment compensation and administrative grant programs using federal funds, monitoring and evaluating the effectiveness of the states' fiscal control and administrative programs and would necessitate, under some circumstances, examining a sample of state agencies' activities in order to evaluate the state's ability to identify and correct problems.

The overall results of the UI vulnerability assessments done by ETA showed that the program was assessed as having low to medium vulnerability. A vulnerability assessment is a review of the susceptibility of a program to waste, loss, or misuse. It consists of analyses of the (1) general control environment, (2) risk inherent in the activity, and (3) existing safeguards. ETA officials told us they followed the guidance provided by the Department and used standardized instruments developed by the Department in conducting the UI vulnerability assessment. They also indicated that when they combined the results of the three analyses, the result tended toward the low or medium overall ratings we observed. Consequently, they would have to look beyond the aggregate and consider the individual component scores in order to isolate potential and recognized vulnerable areas. We believe this indicates that the Department needs to reassess the vulnerability assessment instruments, the process being used, and the validity of the results of its assessment process. In fact, an internal control official told us that the assessment instruments should be more agency specific.

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Although a vulnerability assessment is just one step toward improving agency internal control systems, it is an important step. Properly developed and applied, these assessments can be useful to management by identifying problems before a crisis occurs. For example, should a vulnerability assessment disclose high potential vulnerability, management could call for an internal control review, request an audit, or in the case of a program such as UI, improve program monitoring.

Recommendations to the Secretary of Labor

Considering the administration's proposal to devolve certain aspects of UI, particularly in light of recently reported problems, state concerns about the Quality Control program, and our concerns regarding the adequacy of internal controls, we believe Labor should clarify its oversight role and the interrelationship of its oversight approaches. Specifically, we recommend that the Secretary direct the Assistant Secretary for Employment and Training to:

--Develop a comprehensive oversight strategy that clearly shows how each monitoring mechanism relates, what the results will be used for, and who is responsible for carrying out the oversight function.

--Work with the Assistant Secretary for Administration and Management to evaluate and possibly redesign its vulnerability assessment instrument and process for UI to ensure that they produce reliable results and more completely cover the program.

Agency comments and our evaluation

In response to our recommendation to develop a comprehensive oversight strategy for UI which clearly shows how each mechanism interrelates, what it is to be used for, and who is responsible for carrying out these oversight functions, Labor said that it has the elements of a comprehensive oversight system in place which it believes are functioning effectively. However, as we pointed out in our report, problems with some of its oversight mechanisms have recently been reported, and the quality control system had not yet been implemented, pending a Secretarial review of the system being proposed by ETA. Given the previously reported problems in UI monitoring efforts, the magnitude of the overpayments identified under random audit when it was operating, and the current lack of an effective operational quality control system, we believe our recommendation is appropriate. We acknowledge that the Secretary needed appropriate time to evaluate ETA's proposed quality control system and believe that the assessment we proposed should help the Secretary in evaluating ETA's proposal.

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As with JTPA, Labor believes its implementation of FIA for the UI program is adequate. We disagree for the reasons discussed in our report. (See pp. 95 and 101.) We continue to believe that Labor should assess its application of FIA to the UI program. This is particularly important considering Labor's handling of UI in its annual FIA reporting. In its first-year FIA report, it listed the lack of a UI quality control program as a material weakness. Yet, it did not do this in its second-year FIA report even though the problem still existed. In fact, despite the existence of this material weakness, ETA did not assess the UI program as being highly vulnerable.

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ASSESS USEFULNESS OF AUDITS, REVIEWS, AND EVALUATIONS

CHALLENGE: To ensure that audits, reviews, and evaluations serve the needs of management by providing objective and useful information on agency operations.

PROBLEMS:

- Program managers indicate that audits, reviews, and evaluations are not always useful to them.
- Program evaluation activities have declined.

RECOMMENDATIONS:

- Address program managers' negative perceptions regarding the usefulness of audits, reviews, and evaluations.
- Reassess the emphasis given to Department's program evaluation.

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ASSESS USEFULNESS OF AUDITS, REVIEWS, AND EVALUATIONS

Although most of the program managers we surveyed said that audits, reviews, and evaluations of their units are at least somewhat useful, several reported that they did not always find them helpful in identifying and resolving problems. Program managers we spoke with most frequently expressed concern about work done by external audit, review, and evaluation groups, such as GAO, OIG, and certified public accounting firms; however, they most often mentioned OIG's work. While these perceptions exist, our review of recent semiannual reports indicate OIG is making important contributions toward improving agency management. We did not independently assess the quality of OIG's audits, but focused on obtaining program managers' perceptions on their usefulness.

In addition, the Department has reduced the emphasis given to evaluation activity over the last few years despite major changes in program policies. Emphasis has been reduced in terms of the degree to which the Office of the Secretary directs and oversees evaluation activities of components and the level of evaluation activity being carried out to help the Secretary direct and control departmental operations. For purposes of this review, program evaluation is defined as a formal assessment, through objective measurements and systematic analyses, of the manner in which and the extent to which federal programs (or their components) achieve their objectives or produce other significant effects used to assist management and policy decision making.

Program managers indicated that reviews are not always helpful in identifying and resolving problems

Audits, reviews, and evaluations are tools used by management to obtain objective feedback on program operations. In our survey of program managers, we asked a series of questions regarding internal and external audits, reviews, and evaluations. To determine whether program managers' operations were reviewed by internal or external groups, we asked, for internal reviews, if their unit had ever been reviewed by someone within their unit and, for external reviews, if the unit had ever been reviewed by a group outside their unit. Other questions were designed to determine the extent managers use the results of audits, reviews, and evaluations and how useful these tools are in helping them manage operations by identifying and resolving problems.

Over 90 percent of the managers reported that they use audits, reviews, and evaluations to at least some extent. However, regarding internal audits, reviews, and evaluations,

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21 percent of the program managers felt they were of limited help to them (from some or little or no extent) in identifying problems, and 33 percent felt this way regarding problem resolution. With regard to external audits, reviews, and evaluations, 44 percent indicated that they were of limited help in identifying problems, and 64 percent indicated they were of limited help in resolving problems. (See figures 3.3 and 3.4.)

Figure 3.3: Managers Who Believe Audits, Reviews and Evaluations Identify Problems

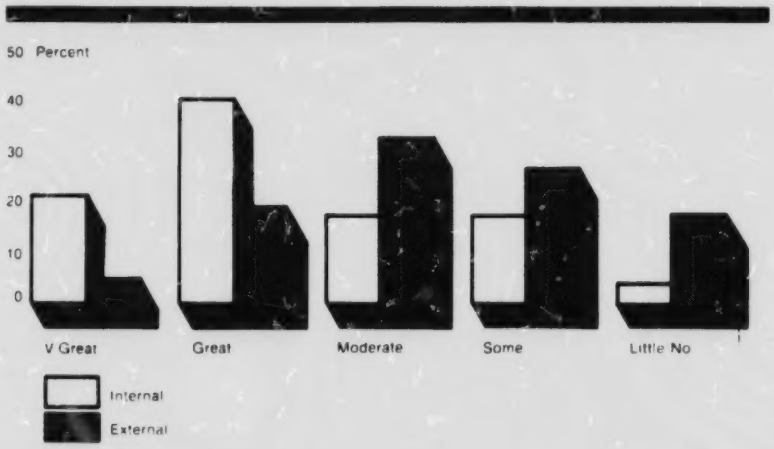
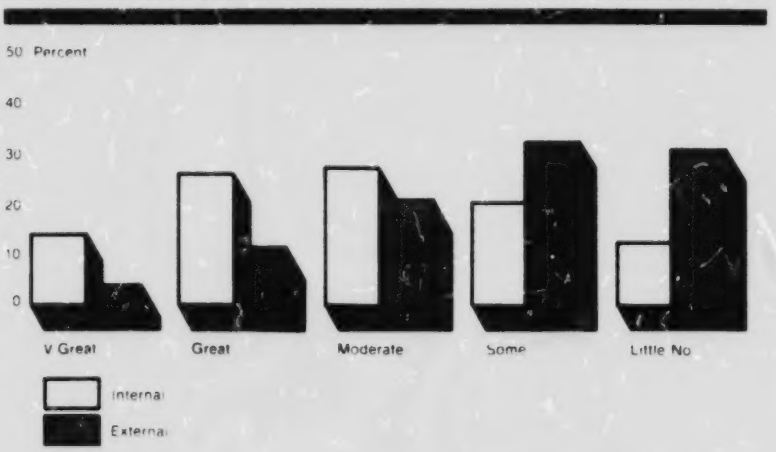


Figure 3.4: Managers Who Believe Audits, Reviews and Evaluations Resolve Problems



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Some of the problems experienced by the managers relative to audits, reviews, and evaluations included concerns about the appropriateness of recommendations, completeness of data due to narrow scope, lack of evidence, duplication of data already available, and accuracy.

We spoke with the Assistant Inspector General for Audit regarding the perceptions program managers had about OIG audits, and he said he was not aware of these concerns. He felt that he would be aware of problems regarding OIG audits because the program managers have the opportunity to comment on OIG draft reports, and comments received indicate OIG's recommendations are being implemented. He suggested that since OIG directs its reports to a higher level than program managers, their response to our survey may indicate they are upset because OIG is finding problems in their programs.

In OIG's two most recent semiannual reports to the Congress covering the period April 1, 1984, to March 31, 1985, OIG pointed out that it had found top management in Labor to be very supportive of its work. The Inspector General also stated that he was gratified that his office was increasingly being asked for advice and assistance. For example, in one of the reports, OIG and ETA established a joint task force to correct substantial internal control deficiencies and management practice inefficiencies in the states' operation of several major components of the UI program. Moreover, OIG work has also been provided to several congressional committees for use in their Labor oversight hearings.

Throughout these two reports OIG cited many instances of corrective action either completed or underway. For example, in the area of cash management, ETA took aggressive corrective action to improve internal controls and cash deposit practices which should realize $118,000 in estimated annual interest savings. Corrective action covering a variety of issues was reported underway in ESA, MSHA, SOL, OASAM, as well as other agency components.

Decline in evaluation emphasis and activity

Labor has deemphasized department-wide evaluation activities, including the degree of emphasis given to them at the Secretarial level, over the last few years. (This does not include other assessments, such as national office reviews of field office compliance with policies and procedures.) Before May 1982, the Assistant Secretary for Policy, Evaluation, and Research gave the Secretary advice and assistance on program evaluation and research matters and guided evaluation and research activities addressing various aspects of Labor's

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activities. These activities were in addition to those done by component agencies. In May 1982, Secretary Donovan redefined the role of this Assistant Secretary, retitled the position, and transferred staff not required for the new role to other planning/evaluation staffs in component agencies.

The Secretary titled the new position as the Assistant Secretary for Policy and focused the mission of the position to provide advice to him on policy and economic matters. However, according to the Secretary's May 1982 order, one of the functions of this Assistant Secretary was to coordinate research and evaluation activities to ensure they are consistent with Secretarial priorities. The Secretary said component heads would be responsible for implementing research and evaluation activities for their program areas.

According to a Policy official, the Assistant Secretary's office reviews research and evaluation activities of components as part of the budget review process or other departmental review processes. However, he said that the review process is not as formal or comprehensive as it was before the fall of 1981, when the office's formal review process was discontinued. Since that time, the review process has generally been informal and ad hoc and has not necessarily covered all research and evaluation activities.

Overall, Labor's evaluation activities have decreased substantially between 1980 and 1984, according to data provided by Labor during government-wide surveys we conducted of agency evaluation efforts. Table 3.2 shows this decline.

Table 3.2

Labor's Evaluation Activity

	1980	1984
Dollars spent	$20,576,000	$5,929,000[a]
Number of units	8	6
Number of employees (full-time equivalent)	95	34
Number of studies completed	118	59

[a]Labor planned to spend $9.6 million in 1985.

Most of the decreases occurred in ETA and ESA. In addition, according to the 1984 data reported, almost all the evaluation funds (88 percent) and evaluations (73 percent) were in two agencies--ETA and BLS--and some components reported no evaluation activity.

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In addition to the belief that program evaluation is a critical managerial tool, the following three factors suggest to us that the Secretary needs to reassess the emphasis being given to evaluation.

1. Major shifts in policy direction have occurred in several of Labor's major programs over the last few years, the impact of which has been the subject of much question among a number of Labor's client groups.

2. About one-fifth of Labor's managers we surveyed reported that their units had not been evaluated (or audited or reviewed). However, further assessment may indicate these units do not require review at this time.

3. Evaluation results would enable the Secretary to make more informed policy and budget decisions, help control operations, help minimize crises or reactive management, and facilitate better planning.

Because the Assistant Secretary for Policy serves as the Secretary's chief policy advisor, and it is important that evaluation results feedback to policy decisions, it seems reasonable that he would play a lead role in promoting and providing additional emphasis. He could ensure that from a departmental standpoint, and in line with Secretarial priorities and legislative requirements, evaluation priorities are established, projects are appropriately planned and implemented, and results are used by decision makers.

Recommendations to the Secretary of Labor

In light of the perceptions that program managers have regarding the usefulness of audits, reviews, and evaluations and the decreased emphasis on program evaluation within Labor and at the Secretarial level, we recommend that the Secretary of Labor:

--Address program managers' negative perceptions regarding the usefulness of internal and external audits, reviews, and evaluations.

--Reassess the emphasis given to program evaluation within the Department to determine whether additional evaluations of key departmental activities would enable the Secretary to make more informed policy decisions and better control operations.

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Agency comments and our evaluation

In commenting on a draft of this report, Labor concurred with our recommendations and said the Department's OIG has acted to work with mid-level and top-level managers to improve perceptions of the usefulness of audits in identifying and implementing corrective actions. Steps taken include more directly involving program managers in the audit process and participating in agency work groups formed to develop corrective action plans. In addition, Labor's Assistant Secretary for Policy proposed that the Department initiate its implementation of our recommendation to reassess the emphasis given to program evaluation by stating the fundamental purpose of each agency and determining how its achievement should be measured. He believes that this effort would enhance the effectiveness of all policy-making and direction-setting in the Department. We believe that the actions taken or planned by Labor are responsive to our recommendations.

The Assistant Secretary also noted that our review sometimes addressed operational activities rather than mission attainment. We acknowledge this concern. We agree that mission attainment is a critical issue, and where information was available, we tried to address it. However, sufficient information on this was frequently not readily available for Labor's programs. We believe that operational issues, such as efficiency and compliance with laws, regulations, policies, and standards are also important and should be considered when assessing management performance.

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ENHANCE DEPARTMENT WORK-FORCE QUALITY AND EFFICIENCY	
PROBLEMS	o Limited identification of and planning for staffing needs. --RIFs result in efficiency loss. --Difficulty in filling vacancies quickly. --Managers critical of training and development. o Variations in use of performance incentives. o No systematic productivity improvement effort.
RECOMMENDATIONS	o Develop a comprehensive Labor-wide framework for work-force planning programs in each agency using a common data base now under development. o Hold managers more accountable for carrying out departmental work-force policies and procedures. o More systematically manage the staffing process. o More rigorously assess training needs and the effectiveness of training programs. o Improve established agency programs for supervisory and management development. o Conduct better oversight of performance management systems to assure that personnel actions are performance based. o Provide more training to managers and supervisors in performance management. o Hold agency managers accountable for productivity improvement programs. o Improve operational performance measures and their analysis. o Provide effective mechanisms and incentives for identifying productivity improvement opportunities.

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SECTION 4: ENHANCE DEPARTMENT

WORK-FORCE QUALITY AND EFFICIENCY

In the past 5 years Labor and its employees have undergone significant change. Several of Labor's missions, during this period, have been either redefined or refocused, its budget has been scaled down, and its work force reduced and reorganized. As these changes were occurring within Labor, the administration was initiating a number of management improvement efforts, such as Reform 88. The goal of these efforts was to enhance the cost effectiveness of government programs. We believe that the quality and efficiency of an agency's work force must also be a major concern for any agency that wants to do a better job and be cost effective. To ensure that it has an efficient and quality work force, an agency must identify, acquire, develop, motivate, and reward the staff it has to accomplish its mission within the limited resources it has. It must also see that its staff and the resources given to it are used productively and efficiently.

Labor, which has the responsibility for ensuring the enforcement of laws and regulations covering the nation's work force, needs to do more to assure the quality and efficiency of its own work force. It needs to (1) better identify and plan for staff needs, (2) improve the staffing process once these needs have been identified, (3) better assess the training needs of its staff and the effectiveness of this training, and (4) improve its supervisory and management development programs. Much of this can be done by holding managers more accountable for departmental policies and guidance already established.

Labor's managers have not sufficiently measured the efficiency or effectiveness of their operations. Also, they have varied greatly in their use of performance incentives to encourage or reward good performance and improve poor performance. As a result, Labor needs to conduct better oversight of its performance management systems to assure that personnel actions are performance based. They must also provide more training to managers and supervisors in performance management techniques.

Labor's components have acted to improve their performance, but problems remain in Labor's approach to productivity improvement. Although a general policy on managing productivity exists, little follow-up or implementation has taken place. The Department needs to improve its productivity measures and analyze performance variations, as well as enhance its measurement of quality of service, including customer reaction.

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Also, Labor must improve its system for identifying and replicating productivity improvements. Again, many of these improvements could be made by holding managers accountable for implementing established departmental policies.

EXPAND STAFFING NEEDS IDENTIFICATION AND PLANNING

Labor has recognized the need to better manage its diverse and changing work force. Over the past 4 years it has begun to enhance its work-force planning and management capability. Two initiatives have been undertaken, the development and automation of a work-force information system and the issuance of work-force planning and management guidance and procedures to component agencies. However, implementation of these procedures throughout Labor has been uneven and limited. More systematic work-force planning and development by all of Labor's agencies should give Labor the capability to better identify and plan for staffing needs and prevent or alleviate many of the personnel problems identified in the areas of work-force reductions, staffing vacancies, and training and development programs.

Essentially work-force planning provides a disciplined approach for determining the quantity and type of skills needed to accomplish an organization's mission and for identifying the volume and type of personnel management actions needed to obtain, develop, and maintain a quality work force. The following activities make up the two-phase work-force planning process.

--Line management, with assistance from staff groups, should determine and clarify:

- o Modifications to organizational mission, programs, and objectives.
- o Tasks to be performed and work units to be produced.
- o Projections of organizational workload for the program or budget period.
- o Work and staffing standards to project aggregate work-force requirements.
- o Work and productivity measures to gauge the appropriateness of work-force size and mix.
- o Organization and position structure.

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--Staff groups, using a comprehensive work-force data base, should analyze, evaluate, and communicate:

- o Current work-force characteristics, including employee qualifications, experience, grade level distributions, assignments, training, and age.
- o Data on turnover, employee performance, and unit productivity.
- o The differences between current work-force characteristics and position and organizational structure requirements.
- o Recruiting needs and workload.
- o Training needs and training workload.
- o Volume of internal movement through promotions, transfers, and separations.
- o Career progression tracks.
- o Criteria for work-force mix decisions (full-time vs. part-time, in-house vs. contract).
- o Alternative action plans reflecting work-force mix combinations.

OASAM, through its Directorate of Personnel Management, is responsible for providing leadership and direction to Labor's agencies on work-force planning and management. OASAM has been taking a number of steps to provide this leadership over the past several years. For example, it has adopted an automated personnel information system to give Labor's agencies sufficient information to strengthen their work-force planning capability. In addition to developing its data base capabilities, Labor has provided both policy and administrative guidance on conducting work-force planning and development activities. This guidance has focused on position management requirements (Apr. 1982), annual strategies for staffing vacancies (Dec. 1983), and management development programs (Sept. 1981), which are some of the essential elements of a comprehensive work-force planning and development process.

According to Labor officials interviewed, most component agencies have not fully implemented these policies and guidance. Factors contributing to this include:

--Some components are just now coming out of a RIF posture and beginning to consider future needs.

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--Until recently Labor lacked an automated information system that would permit better analysis of work-force issues.

--Some component agency managers did not see work-force planning as a priority and therefore did not carry out policies or guidance and were not held accountable for addressing work-force planning issues.

Through more systematic work-force planning, which several components are now beginning to do, Labor should be better able to identify and plan for staffing needs and prevent or alleviate many of the personnel problems raised by program managers or identified in its internal evaluations. These problems and concerns include:

--Efficiency losses and work-force imbalances associated with RIFs.

--Lengthy delays in filling critical vacancies.

--Lack of confidence by many program managers in (1) the effectiveness of Labor's training programs in improving job performance and (2) the effectiveness of Labor's management development program.

--Inefficiencies in staff resource distribution in such areas as supervisor-to-employee ratios and program staff to support staff ratios.

RIF adjustments resulted in some efficiency loss

Since the beginning of fiscal year 1982, Labor has undergone nine RIFs involving 1,442 separations, 1,149 demotions, and 1,419 reassignments. According to Labor policy, RIFs are conducted by individual agencies to meet their specific requirements under procedures and guidance from the Department. Reasons for these RIFs include legislated mission changes, budget cuts, and reorganizations. In carrying out these RIFs, Labor and its agencies attempted to separate as few employees as possible, conduct the RIFs as equitably as possible, and carry out mission requirements as efficiently and effectively as possible. As one might expect, meeting the first two objectives was not always compatible with meeting the third. Consequently, agencies experienced some efficiency losses.

Labor officials believe the RIFs they conducted were well run because (1) relatively few employee appeals were upheld under civil service procedures by the Merit System Protection Board and (2) many employees were retained that otherwise would

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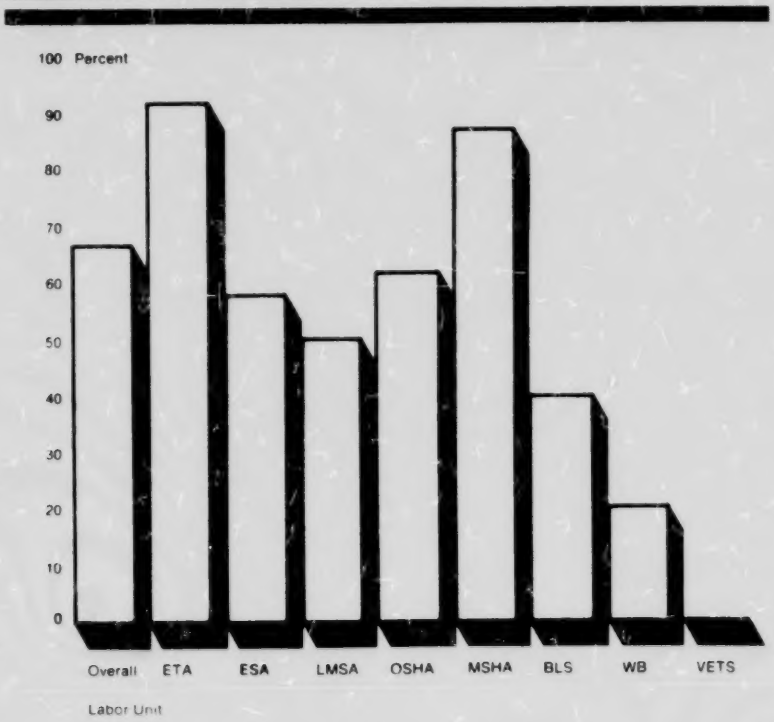
have been separated (because of Labor's placement program for RIF'ed employees). Nevertheless, program managers complained about gaining inexperienced or unskilled staff, low morale among staff, and the loss of key staff. We believe that these concerns illustrate the importance of good planning and that better work-force planning could have assisted agencies in the past and could help in the future in better matching an employee's skills to the required tasks of a position.

Of 114 managers responding to our survey who said their units were affected by a RIF, 76 indicated that the efficiency and effectiveness of their units were adversely affected by the RIFs. As figure 4.1 shows, managers in ETA, ESA, OSHA, and MSHA indicated that they were most affected by the RIFs.

Figure 4.1: Managers of Units Affected by RIF Who Believe RIFs Decreased The Efficiency and Effectiveness of Their Units



To obtain additional information on the effects of the RIFs, we followed up on 20 of the 32 managers who indicated both a decrease in unit efficiency and effectiveness and an increase in the number of unqualified staff due to the RIF. We found 13 different units where managers believed that the gain of

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unqualified or inexperienced staff had had a negative impact on their units. In addition, during our work, we found three other units where this had been a problem.

Current RIF rules generally allow employees to move from one position to another based on retention standing[1] and minimum qualifications. Most of the managers we interviewed complained that, due to the then existing RIF rules, their units gained employees lacking essential skills and/or program knowledge. Some of these managers specifically complained of the replacement of experienced staff with such new employees. Others commented that vacancies in their units were filled with inexperienced or unqualified employees. Labor officials believe that the effects of the RIF could have been lessened had managers fulfilled their personnel management responsibilities, such as keeping position descriptions current in describing skill requirements and position responsibilities.

The actual impact of gaining unskilled or inexperienced staff is difficult to gauge. Although only one manager we interviewed acknowledged that his unit was unable to accomplish its mission due to the gain of unqualified or inexperienced staff, most managers who gained such staff felt that they had had a negative impact on their units. New staff sometimes required extensive retraining which was often provided on the job by more experienced staff. Consequently, time taken to receive or provide such training, in addition to the level of work new staff was capable of performing, compromised the unit's ability to perform its work. Managers commented on extended deadlines, lack of in-depth monitoring or investigative work, the need to borrow employees with special skills, and the need to detail RIF'ed employees back to their units. For example:

--One manager provided information on the case of a GS-14/15 economist who was RIF'ed and later qualified, on the basis of prior academic experience, for a GS-13 statistician slot. The new employee's supervisor determined that his statistical experience was not relevant in terms of either time or subject matter. Both the supervisor and the new employee agreed that he would not be able to meet performance standards within the required 90 days. For the short term, a statistician was borrowed from another unit.

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[1]Retention standing is determined by type of appointment, veteran's preference, length of service, and performance.

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--In a major Labor agency, a senior-level employee was bumped into a critical managerial position despite his lack of specialized skills and knowledge required for the job. The program manager did not specify these skills in the position description. The employee consequently was unable to perform essential tasks of his new position.

--In all three of the Job Corps regions we visited, inexperienced staff replaced experienced employees, adversely affecting operations. For example, in San Francisco, a GS-13 CETA Manpower Development Specialist was moved into a Job Corps management slot which was classified as needing a manpower development specialist. This position actually required technical contracting expertise in negotiating, evaluating proposals, pricing, and monitoring, as well as a thorough knowledge of Job Corps center operations. The former CETA employee did not have these skills. As a result, other program staff provided extensive assistance to this new employee, thereby reducing the number of monitoring visits they were able to make to Job Corps centers. Such reduced monitoring may have caused a variety of problems which occurred at the Job Corps centers. In Atlanta, for instance, inexperienced staff misadvised a Job Corps center regarding questionable costs which were later disallowed.

--A field office director in another agency said that he lost three effective well-trained employees and gained three unqualified employees. The manager stated that if the three new employees had been candidates for a position opening, he would not have hired them. He explained that the new employees were given 3 to 4 months of training and estimates that it will take 1-1/2 to 2 years for them to become productive. Consequently, it was necessary to divide the workload of the RIF'ed employees among the remaining experienced staff. To help staff with their increased workloads, the manager no longer initiated certain types of cases and limited the scope of others.

Labor agencies may have a long-term work-force problem in addition to the loss of qualified staff through RIFs; as older workers retire, fewer younger staff are in the pipeline to take their places. Labor has noted this imbalance in its internal reviews as well as imbalances in grade levels, supervisory-to-employee and program-to-support ratios, that were the result of RIF actions. These are problems that Labor is beginning to address as it develops it work-force planning capabilities.

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Work-force management techniques and tools long available within Labor could have alleviated some of the problems associated with the RIFs and, along with recently developed methods, could strengthen managers' abilities to plan and manage their respective work forces more efficiently and effectively during future changes in work-force size and composition. These include (1) regular position management and classification reviews by OASAM and Labor agencies; (2) work analysis using the recently developed "Position Reference Package" that allows the manager to analyze position requirements so that personnel decisions related to recruitment, staffing, performance, and training are linked under a consistent framework that saves managers both time and effort in determining their requirements; (3) staffing strategies based upon work-force needs analysis, in those instances where agencies anticipate the need for new or additional staff; and (4) Tables of Authorized Positions, which, when implemented, will streamline the process for authorizing positions and grade levels for each organizational unit.

We believe that many of the problems associated with RIFs in Labor could have been alleviated had managers been held accountable for the use of more effective work-force management techniques such as these. For example, had effective position management or classification surveys been regularly conducted by agencies as part of an overall work-force planning effort, position descriptions would have been updated to include more accurate skill requirements. We also believe that had the managers, with assistance from personnel staffs, more systematically analyzed the work requirements of their units, they would have identified the need to secure the necessary approvals for the specialized skills required to perform the job. This would have prevented individuals not having the necessary skills required to perform effectively from being given the position. This is because these specialized requirements would have been considered when the competitive levels were established and in making assignments between competitive levels during a RIF.[2]

In our opinion, these tools and techniques cannot be fully effective unless they are a part of an overall work-force planning effort that is related to other management systems and is supported and led by top management within each agency and Labor as a whole. The President's Council on Management

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[2]A competitive level is a grouping of similar positions at the same grade level with similar qualifications. Any employee holding a position within this group could be reassigned to any other position in the group and perform effectively without unduly disrupting the mission.

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Improvement commissioned a study on personnel operations in the private sector and in the nonfederal public sector which stated this point:

> "Because work force planning provides the framework for making work force requirements and management staffing decisions, the process needs to become an integral part of management planning and decision making systems."

This report also noted that for work-force planning to be successful, top management commitment over several years is critical. This does not appear to have been the case at Labor. To illustrate, only about 5 of the more than 300 objectives submitted by the Assistant Secretaries in 1983 and 1984 for the Department's annual planning processes were specifically aimed at work-force planning and employee development issues.

Delays in filling vacancies

Labor managers we surveyed were dissatisfied with the time required to fill vacancies that are critical to the success of their program. Labor's component agencies are frequently unable to fill vacancies in a timely manner for a variety of reasons. One important reason, we believe, was an inadequate personnel data base that did not give managers the capability to project staffing needs or give the agency sufficient data to determine the status and condition of the staffing process. The lack of such data may be a contributing factor in why managers perceive the process as not timely because there are no comprehensive data to show how timely the process is. Other reasons that contribute to the perceived slowness of the staffing process are:

--The loss of the Professional and Administrative Career Examination, which served as a key element in filling vacancies in Labor's major occupations. This examination gave Labor agencies a large pool of candidates from which to recruit as their needs dictated. Now agencies must have specially designed recruiting efforts that may not identify a suitable pool of candidates. (Previously, a pool of candidates would have already been identified through the examination.) This new process, according to Labor officials, is more time consuming than the previous process and adds to the delay in filling vacancies because there is no readily available list of candidates to interview.

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--The implementation of the "Full Time Equivalency" method of planning for staff requirements, which agencies and their managers have not fully adapted to in planning for their staffing needs, as well as budget and employment ceilings, which place limitations on managers' capability to plan for and fill staffing requirements. Consequently, managers do not always activate the staffing process in advance of anticipated vacancies.

--An inadequate system for monitoring the progress of staffing actions and the lack of a consistent Labor-wide time standard for filling vacancies to which managers are held accountable.

--Special problems in recruiting and filling certain types of technical positions due to such factors as shortages in a qualified labor pool and federal salaries that are not competitive for specialized positions.

--Lack of sufficient data readily available for (1) projecting recruiting needs, (2) determining the status of a staffing action in the process, or (3) identifying the reasons for the delays.

More than 80 percent of the managers surveyed indicated they had difficulty in filling vacancies within their unit in a time frame that met mission requirements. Figure 4.2 shows that, while this problem is particularly acute in a number of Labor agencies, it is viewed as a problem by managers in all agencies.

Processing time varies between filling a vacancy through the merit staffing process and the OPM staffing process

For the 11 personnel offices under its control, OASAM has a standard for filling a vacancy through merit staffing in 52 days and from an OPM certificate in 35 days. (This standard does not apply to six headquarters components that handle their own personnel actions; in some cases they have their own individual standards that vary among the agencies.) OASAM has found that, under optimum circumstances, a position can be merit staffed in the field in 56 calendar days. Merit staffing is the process of filling a position directly through Labor's procedures with the best qualified candidates identified internally or externally. A number of program managers we interviewed cited numerous problems with the staffing process. As a follow-up, we developed examples of these problems by examining 14 of the most recent hiring actions conducted by BLS, ESA, LMSA, which handle their own personnel actions, and we found that:

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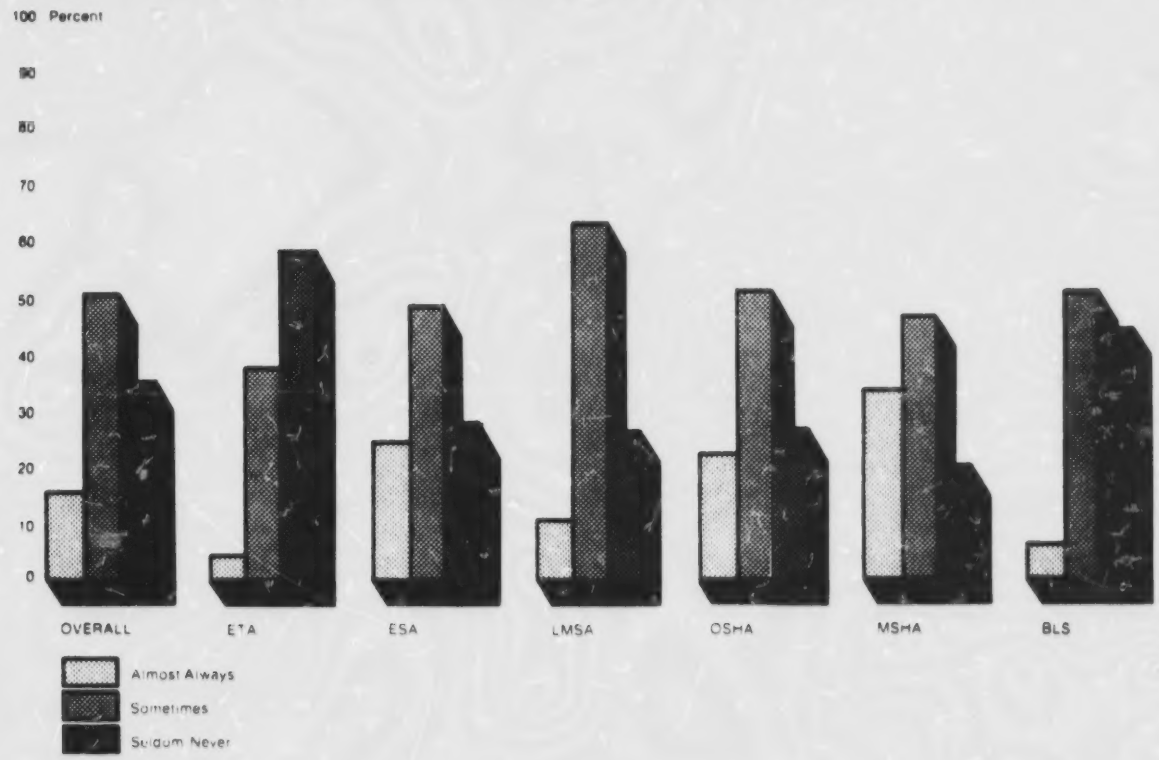
Figure 4.2: Extent to Which Managers Believe That the Staffing Process is Timely in Filling Vacancies



--Seven positions filled through the merit staffing process averaged 75 calendar days, 23 days over the OASAM standard of 52 days.

--The remaining seven positions we examined were processed from OPM certificates and took an average of 193 calendar days. On the average OPM provided a certificate in 54 days, or 28 percent of total staffing time. Labor agencies took 139 calendar days to process the actions, thus controlling over 72 percent of the processing time.

--OPM has a standard of 10 working days to internally process a staffing action. However, OPM was often unable to meet this standard due to staffing reductions and workload increases.

According to OPM officials, most actions in the Washington, D.C., area involve agency requests for approval of a specific person which, OPM officials say, adds 3 weeks to the process. In addition, OPM staffing officials note that it is necessary at times to return a personnel staffing action to the requesting agency for more preparation. Labor personnel officials also note that because agency managers frequently did an inadequate job of preparing a staffing request, they had to return a request for a personnel action to the requesting manager. This point was highlighted in Region V, where we found a significant number of personnel staffing requests had to be returned due to poor planning (e.g., classification problems/funding availability). These returned actions constituted 46 percent and 35 percent of all personnel actions in fiscal years 1983 and 1984, respectively.

Labor has completed an examination of the merit staffing process in its headquarters and field offices. It has found that a major factor in filling a position is complying with requirements in the union contract. If these requirements were eliminated, it could reduce the optimum internal Labor processing time by nearly 18 percent. These requirements are being dropped from regional staffing actions as the result of a renegotiation of the contract between Labor and the union representing field employees.

Special problems in recruiting and filling certain positions

Labor agencies have had problems in recruiting for and filling certain positions that require specialized skills or knowledge. Two principal reasons that they have had these problems are that entry-level federal salary scales are not always competitive in different parts of the country with private sector salaries or that the labor pool for these occupations is not sufficient. We examined selected occupations based on our survey of managers and found problems in several Labor agencies. For example:

--According to OSHA, recruiting of engineers, industrial hygienists, economists, biologists, and chemists is difficult because the private sector offers salaries that are $5,000 to $7,000 more than government salaries.

--MSHA has had problems in recruiting mining engineers because entry-level salaries are not competitive with the private sector.

--ESA has had difficulty in the past recruiting claims examiners due to the requirements of the position.

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--ADP positions overall are difficult to fill due to noncompetitive salaries and a shortage of a qualified labor pool. The problem is particularly acute in OIG, the San Francisco Region, and BLS.

--BLS managers also informed us that they sometimes have difficulty in quickly filling economist positions, because obtaining a list of qualified candidates is difficult, taking longer than 9 months.

Departmental training and management development programs are not seen as effective by many program managers

We believe a key component in work-force management is an effective training and development program for employees, especially those holding supervisory, managerial, and executive-level positions. The President's Council on Management Improvement, in a study it commissioned on personnel operations in the private sector and in state and local governments, concluded that gains in effectiveness and cost reduction could occur by having federal agencies implement management development programs. This is because, among other reasons, these programs:

--Improve organizational continuity.

--Create stronger linkages between agency goals and performance appraisal systems.

--Strengthen management/employee commitment.

--Reinforce and build management skills.

Most of the managers we surveyed felt Labor's training and development programs were not effective in improving the job performance of their supervisory employees. Nor did these managers believe that training for professionals, which is provided by both the Department and its agencies, was effective in improving the performance of their professional employees.

Additionally, about 60 percent of the managers did not view the Senior Executive Service (SES) candidate program, which is separate from the Department's supervisory and management training programs, as effective in identifying individuals for the executive candidate program or in assessing their performance while in the program.

In Labor, responsibility for training and development activities is split between the Department and its agencies.

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Labor offers a wide variety of technical and managerial courses for professional, administrative, clerical, and technical employees.

Labor's supervisory and management training courses were developed following a comprehensive training needs assessment 6 years ago. These courses are updated through periodic review and regular evaluation of courses and instructors by participants and their supervisors. Course evaluations, according to Labor personnel officials, have been used to improve the content and delivery of courses so that they meet employee needs.

Of the Department's program managers we surveyed, 51 percent believed that the training and development programs for supervisory personnel were of little or no effectiveness in improving job performance, while 19 percent believed that they were effective to a great or very great extent. For professional employees, 25 percent of the managers believed that they were very effective, and 46 percent believed that they were of little or no effectiveness in improving job performance. Responses by agency are shown in figures 4.3 and 4.4.

Figure 4.3: Extent to Which Managers Believe That Supervisory Training is Effective

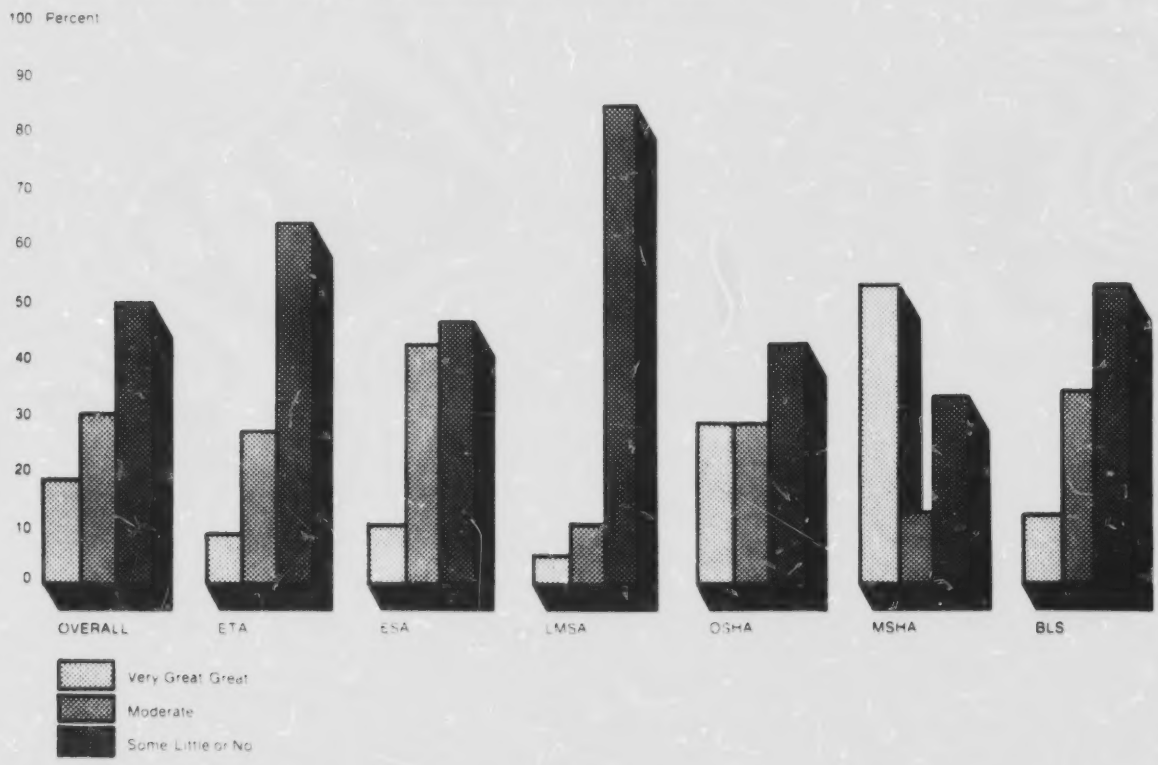

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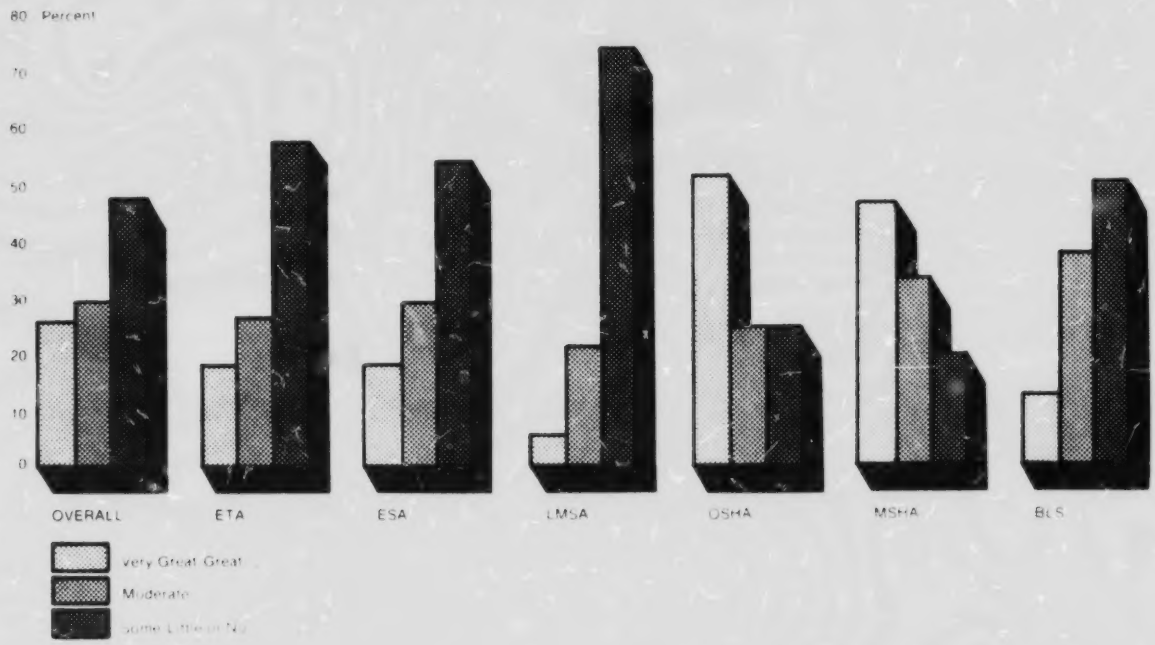
Figure 4.4: Extent to Which Managers Believe That Training for Professional Staff is Effective



Among the reasons most often cited by managers for the limited effectiveness of training programs in improving job performance were that courses did not meet program or employee needs or that adequate training was hindered by cuts in training funds. For example, managers stated:

--Supervisory training is a major weakness; more and better programs are needed.

--Training was not timely; no assistance was received from the Department in assessing training needs.

--Some employees had to take courses they did not need or could have taught.

--Training was too generic--a Department-wide focus cannot be applied to agency-specific problems.

--Cuts in funds for travel and training show a lack of commitment.

Concerning the executive development program, about 60 percent of managers we surveyed believed that the SES candidate program is not very effective in identifying individuals for

selection (63 percent) or in assessing their performance (59 percent) once in the program. (See figure 4.5.) Many managers said they were unaware of the existence of the Department's program. Managers' comments included:

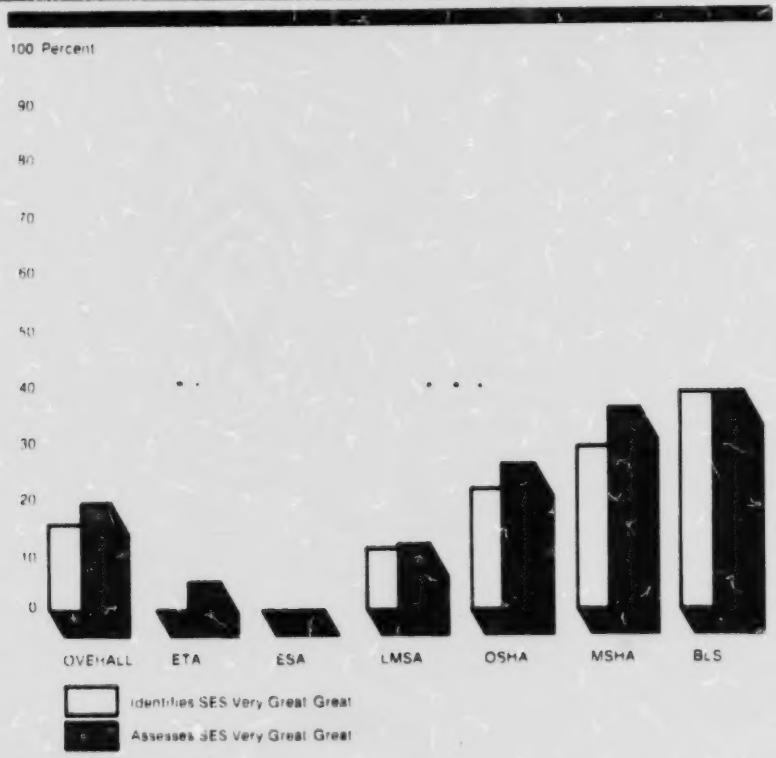
--The SES selection program has poor criteria; in assessing performance everyone is viewed as doing a good job.

--SES appointment is primarily political, not based on performance.

--When the SES candidate program existed it was effective--now there is no program, there is no plan (within ETA) to move journeyman people into mid-level management.

--There is no plan for staff development.

Figure 4.5: Extent to Which Managers Believe That the SES Program Identifies Individuals for Selection and Assesses Their Performance



In commenting on these perceptions, an OASAM official pointed out that over 50 percent of the persons selected as SES candidates were appointed to SES positions through a merit-based process and that other feedback received by OASAM does not indicate major concerns from SES candidates themselves about the SES program. The official said that Labor does not require its

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agencies to program SES candidates every year, and the small number of candidates identified since the first year of the program--due to recent staff cutbacks--may have caused the negative perceptions reported to us during our survey.

We did not evaluate the effectiveness of Department-wide or component agencies' training and development programs for supervisory, managerial, and executive personnel as a part of our review. However, the fact that most managers believe that departmental training and development programs are not effective in improving employee job performance and in identifying and assessing executive candidates indicates that problems with these programs may exist and that managers' negative perceptions need to be addressed by both departmental and agency officials.

Because Labor agencies have been in a "RIF posture" over the past 4 years, training and development programs did not have the priority they should have had. Department officials believe that with agencies now coming out of their RIF posture, they should focus attention on their supervisory and management development programs.

Key to any training and development program is the curriculum that is offered. While the Department offers a wide variety of courses in the areas of supervision and management, many of the managers we surveyed did not see these courses as meeting their program needs. Department personnel officials point out that these courses were developed as a result of a comprehensive needs assessment, which has been followed up by periodic interviews involving samples consisting principally of middle managers throughout the Department. These assessments, according to Department officials, are designed to identify emerging training needs and whether current courses are addressing these needs, not to evaluate the effectiveness of the courses themselves.

Labor officials said they rely on course evaluation forms (reaction sheets) given out to participants at the end of each training module. These "reaction sheets" have indicated that the courses have been well received by participants. Supervisory and participant evaluations are conducted by mail 3 months after the completion of the course. Labor officials noted that they do not keep a record of the response rate for these post-course evaluations, but nevertheless believe the response rate to be very low. Consequently, most feedback on course effectiveness is based on the reaction sheets that are given out after each module. Departmental training officials recognize that these course evaluation methods are not as rigorous as they should be, but believe they were reasonable given the limited resources available. Labor personnel

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officials acknowledged that their previous training needs assessments have not been sufficiently comprehensive and that obtaining more input from program managers would enhance the Department's training program.

Recommendations to the Secretary of Labor

The Department has begun to strengthen its capability to plan its work-force needs and to take necessary personnel management actions to meet these needs. However, without additional top management support and follow-up at both Department and agency levels, effective work-force planning and personnel management actions may not occur or continue. Therefore, we recommend that the Secretary:

--Direct the Assistant Secretary for Administration and Management to develop comprehensive work-force planning policies and guidance under which agencies are required to establish individually tailored work-force planning programs. Using its data base on Labor's work force, which should be linked to agency workload and productivity, periodically have the Directorate of Personnel provide agencies with analytical information on critical issues that OASAM identified relating to (1) work-force characteristics, (2) internal staff movement, (3) training and developmental needs, (4) turnover and recruitment data, and (5) data on performance appraisals and performance-related actions relating to their respective work forces.

--Hold managers within each agency more accountable for carrying out their work-force management responsibilities with regard to departmental and agency policies and guidance on position management, classification, and staffing.

--Direct the Assistant Secretary for Administration and Management, in cooperation with agencies, to (1) establish appropriate standards for filling vacancies, (2) establish procedures for monitoring the staffing process, and (3) develop strategies for dealing with identified problem areas.

--Require that agencies establish, with OASAM guidance and assistance, more systematic procedures for developing employees for supervisory and management positions.

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--Require more rigorous implementation of training needs assessments and course evaluation methods that identify current and future training needs, so that agency and programmatic requirements are satisfied.

Agency comments and our evaluation

The Secretary agreed that the quality and efficiency of the Department's work force is a major concern and said that the Department is initiating numerous improvement efforts, most of which are aimed at ensuring better conformance with existing policies and procedures. Specifically, Labor said it would give additional emphasis to work-force planning and analysis, streamline recruiting and staffing procedures, support and encourage the use of supervisory and management development programs throughout the Department, provide managers information on training needs, and improve course evaluation procedures to enhance the effectiveness of the Department's training and development programs. In addition, Labor said it would assist its managers in ensuring the accuracy and currency of position descriptions and would ensure that training following a RIF assignment more fully mitigates the resulting dislocations.

In commenting on its management of RIFs, Labor pointed out that it is not possible to reduce a work force by 1,400 given the rules it had to follow in the time frame it had to work under without causing disruption. We acknowledged this in our report as well as the efforts Labor made to separate as few employees as possible. We believe that the actions Labor has agreed to take should help further reduce adverse effects of future RIFs should they be necessary, as well as help improve work-force management in general.

ADDRESS VARIATIONS IN THE USE OF PERFORMANCE INCENTIVES

Performance management is a series of planned personnel management actions directed toward improving organizational performance through the effective use of employees. To achieve the objectives of recent civil service reforms, agencies are required to have systems for periodically appraising employee job performance and for using appraisal results as the basis for promoting, rewarding, developing, and disciplining employees. Under Labor's system, as in other government agencies, each manager has the responsibility to:

--Communicate to employees job-related performance standards.

--Appraise employee performance in relation to established standards.

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--Recognize and reward employees whose performance so warrants.

--Help employees improve unacceptable performance.

--Take appropriate action when unacceptable performance does not improve.

The development and implementation of policy covering these personnel actions is the responsibility of each Labor agency, with overall direction and leadership provided by OASAM. The direct application of the policy is the responsibility of managers and supervisors in component agencies.

Significant variations exist among agencies in the awards given to outstanding employees, in actions to improve poor performance, and in demotions and removals based on poor performance. Managers' capability to recognize and reward outstanding performance and their willingness to act on poor performance varies significantly among agencies. Performance-related personnel actions should be based on the results of performance appraisals, yet manager and employee confidence in the effectiveness of these systems is limited. Supervisory training on performance management is inconsistent among agencies, and Labor's evaluation of these nonsupervisory appraisal systems has been limited in scope and depth.

Wide variations among component agencies in the application of performance actions do not necessarily mean that deficiencies exist. However, they do indicate the need for Labor to determine the reasons for these variations and to take corrective action if necessary.

Recognizing outstanding performance

Program managers we surveyed stated that a cash award or a quality step increase are two incentives available to managers to recognize and reward outstanding performance among employees. Our analysis of performance ratings, monetary awards given, and award budgets indicates that there is a wide variation among Labor agencies in the application of these incentives. Figure 4.6 illustrates this point.

For each agency there are four bars indicating what percentage of the total Department it comprises. The first bar indicates what percentage of total Labor employees the agency has. The second bar indicates what percentage of all outstanding performance ratings the agency managers gave. The third bar shows what percentage of all awards the managers gave, and the fourth bar shows the percentage of the Department's

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performance awards budget the agency expended. For example, while BLS' national office has 8 percent of Labor employees and its employees received 11 percent of outstanding ratings, it had 2 percent of the award budget and 2 percent of all awards. MSHA, on the other hand, provided ratings, awards, and award dollars in proportion to its employee population. It is Labor policy that an outstanding employee should be recognized where appropriate through a cash award or a quality step increase. The distributions listed in figures 4.6 through 4.8 indicate that this may not be occurring consistently across Labor.

Figure 4.6: Awards and Outstanding Ratings Distributions for GS Employees in Selected National Offices and Regions During FY 1984

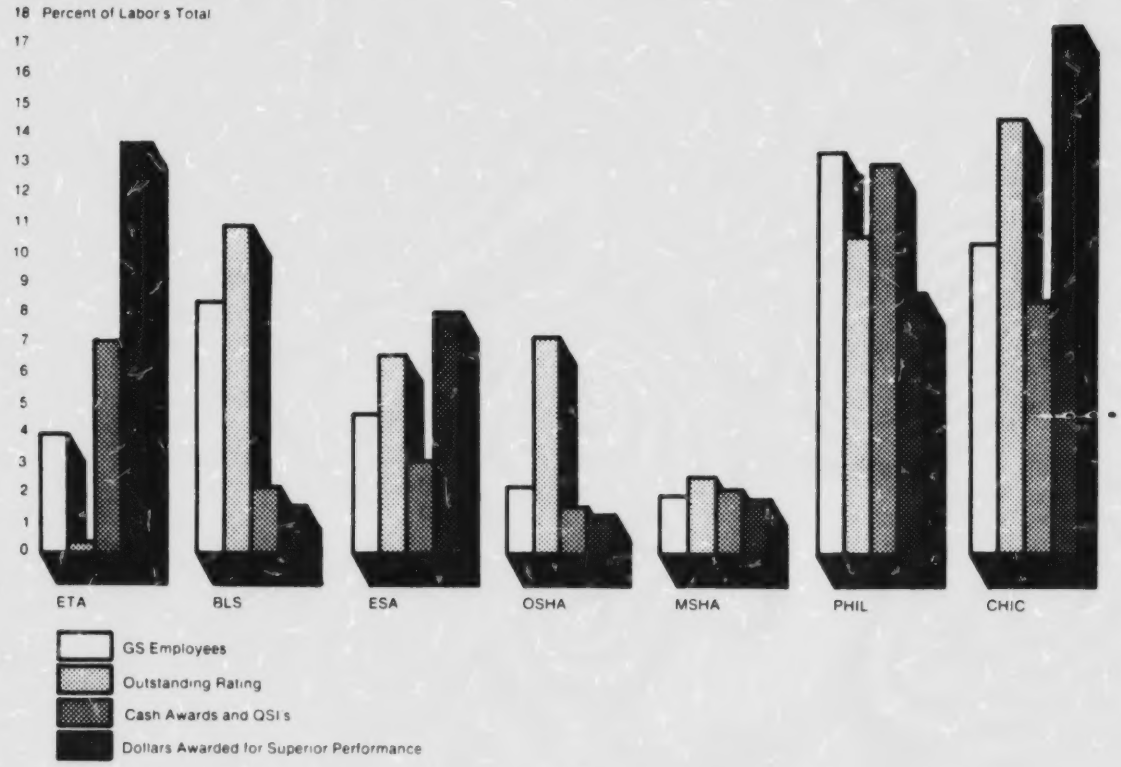

Figure 4.7 further illustrates the problem of inconsistent recognition of performance by selected agency national offices and regions. The first bar indicates the percentage of GS employees rated outstanding who were recognized with a cash award or quality step increase. The second bar indicates the dollars budgeted for awards per employee.

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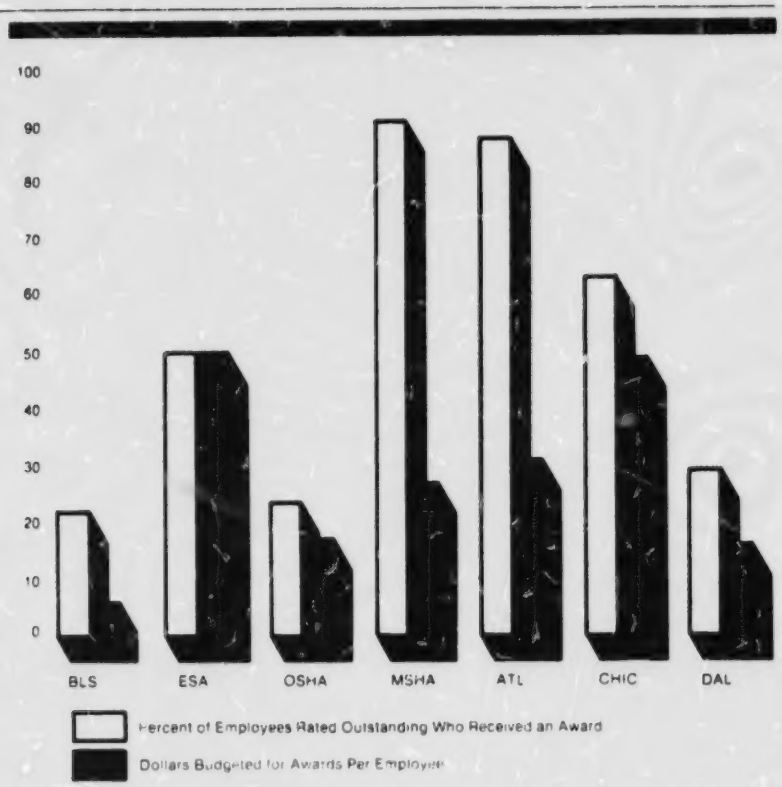
Figure 4.7: Outstanding Ratings and Dollars Budgeted for Awards for Selected National Offices and Regional Units



In a previous report on performance appraisal (FPCD-81-55), we noted that one key test in evaluating the effectiveness of an appraisal system is that of precision. Precision is the degree to which an appraisal system is able to discriminate between differences in individual performance. Figure 4.8 is not intended to assert a standard by which the precision of an agency's appraisal system is evaluated, but rather to illustrate the wide variation among agencies in the results of their systems' operations. For example, OSHA's national office has only 6 percent of Labor's GS employees but has 24 percent of those employees rated outstanding, while ETA's national office has 12 percent of Labor's GS employees and only 1 percent rated outstanding. If these agencies' systems are precise, it would mean that in OSHA's national office nearly 1 out of every 3.5 GS employees is outstanding and that in ETA's national office only 1 in 123 is outstanding, while in Labor's national offices, on the average, 1 in 13 is outstanding. These variations may indicate that there are differences in the quality of the agencies' work forces or that their appraisal systems are not precise in measuring performance differences.

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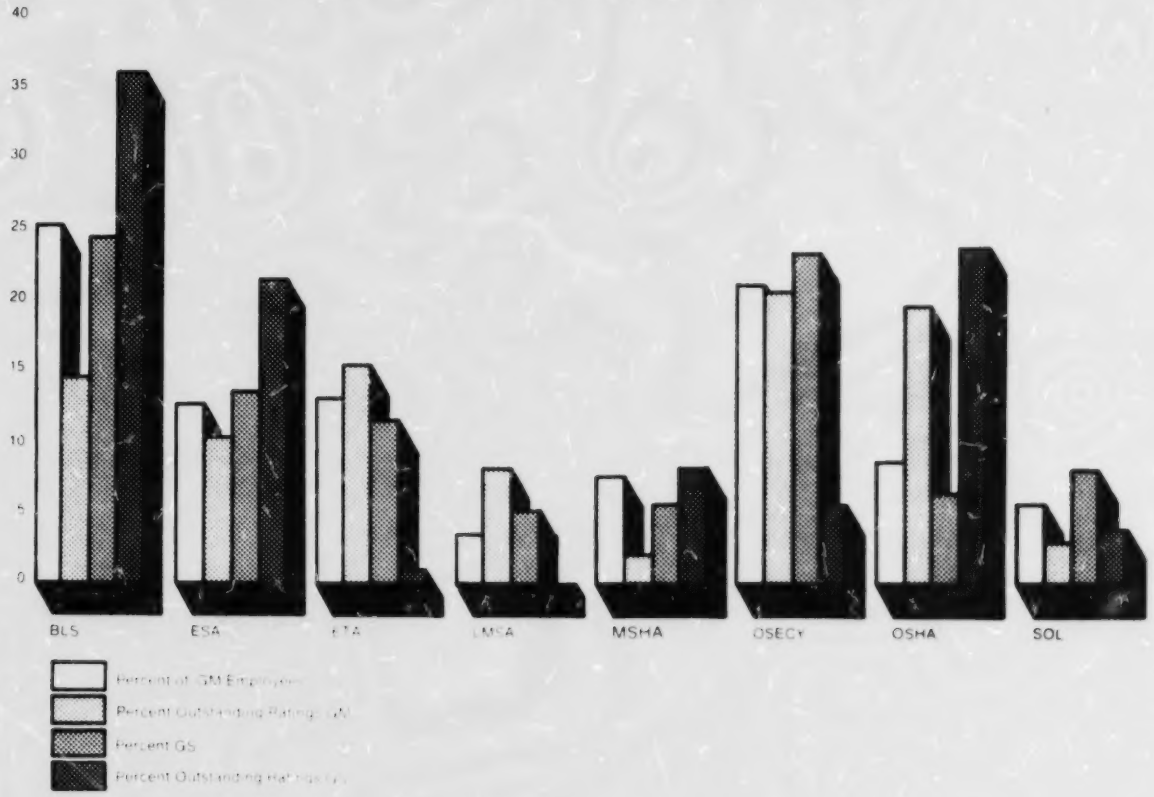
Figure 4.8: Distribution of Outstanding Ratings for GM and GS Employees in Agency National Offices



Some Labor officials do not believe that the performance ratings data for GS employees are as accurate as they should be because they represent different rating cycles and therefore are not consistent. The ratings used in these tables represent what was in Labor's information systems as of January 1985. OASAM officials said that more accurate information on ratings for GS employees should be available in the next several months.

Actions on poor performance

Labor agencies also show variations in acting to improve unacceptable employee performance and taking appropriate action when performance does not improve. The principal means that a manager in Labor has to improve an employee's unacceptable performance is through a Performance Improvement Plan (PIP). If performance does not improve, the manager using appropriate procedures can reassign, demote, or remove the employee. The

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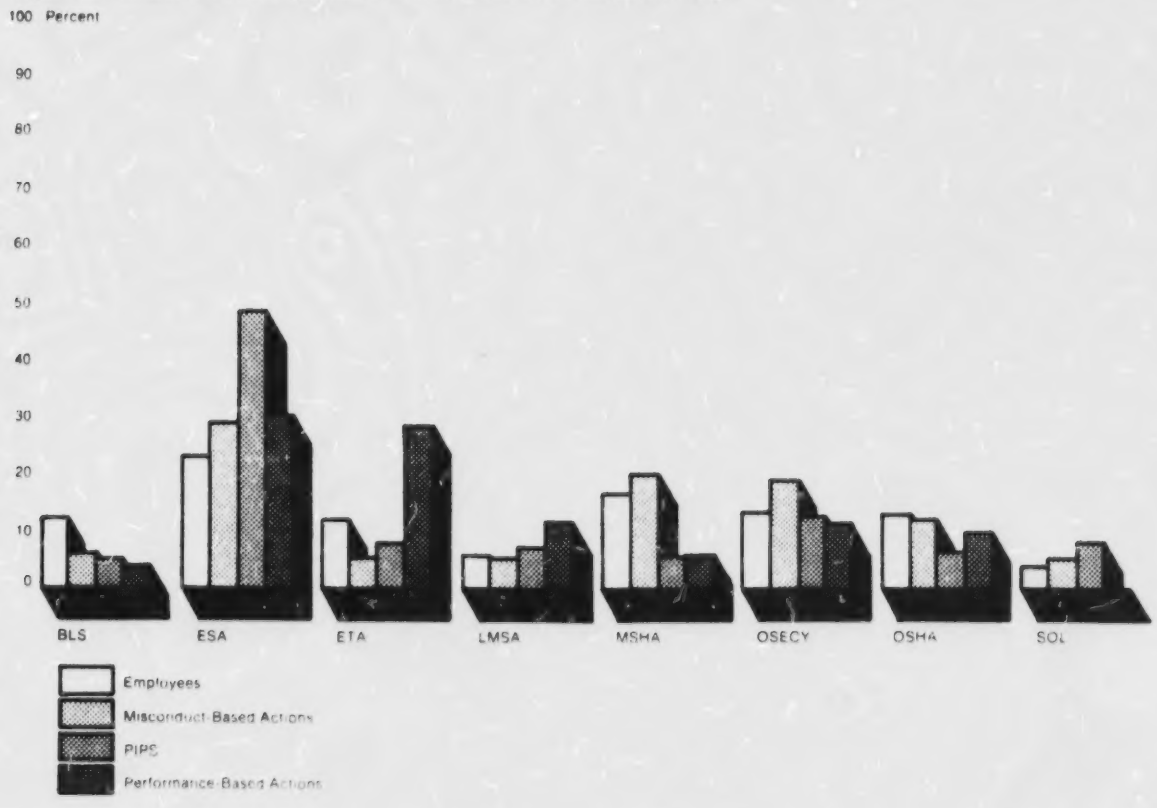
extent to which managers do this varies among agencies. Almost three-fourths of all Labor's performance-based actions in fiscal year 1984 occurred in agencies having just over one-third of all Labor employees.

Figure 4.9 illustrates the variations among Labor agencies in the application of this policy by Labor managers. The first bar indicates the percentage of total Department employees in the agency (headquarters and regions). The second bar indicates what percentage of total misconduct actions were taken by agency managers in proportion to the total Department; this bar is included only to show that, on misconduct actions, agencies overall tend to be more consistent--it is not included for comparative purposes. The third bar indicates what percentage of total PIPs were initiated by agency managers, and the fourth bar indicates what percentage of all performance-based actions resulted in a demotion or removal.

Figure 4.9: Adverse Personnel Actions Performance-Based and Misconduct-Based



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Agencies have varied widely in the extent to which they have initiated PIPs and other performance-based actions over a recent 2-year period. A striking contrast exists between BLS, which has 12 percent of the employees and only 4 percent of the performance-based actions, and ETA, which also has 12 percent of the employees, but took 28 percent of all performance-based actions.

An adverse personnel action for poor performance is not viewed as a strong possibility by employees we interviewed in four Labor regions that represented three major Labor agencies--ESA, MSHA, and OSHA.

Among the employees we surveyed, one in five believe that a demotion would occur for poor performance. Those employees who believe that an action would occur range from 39 percent in ESA to 21 percent in MSHA to 5 percent in OSHA. While not a representative sample, these responses indicate a significant difference among Labor employees by agency. Significant differences also exist among program managers we surveyed. When asked to what extent they were willing to act on poor performers, their responses ranged from 97 percent in ESA who were willing to act to a great or very great extent to 34 percent in BLS.

Labor officials have stated that because each agency has a different culture and type of employee population, employee personnel actions will vary. However, they agree that the reasons for the variations need to be identified and actions should be taken if appropriate.

Performance appraisals can better support the performance management process

Performance-based personnel actions--such as awards, promotions, demotions, and removals--should be based on the results of performance appraisals. Yet rating distributions, the managers' survey, and employee interviews indicate that the agencies inconsistently apply the Department's system. Labor, due to inadequate data, has not conducted a comprehensive evaluation of the performance appraisal process for GS employees. Prior evaluation efforts have focused on SES and General Management (GM) employees, and selected examinations of performance standards and appraisals for employees have been done during periodic personnel management evaluations.

While there is no established level of confidence that managers should have in a performance appraisal system, GAO has found (FPCD-81-55) that strong user acceptance is required for a successful application of the system.

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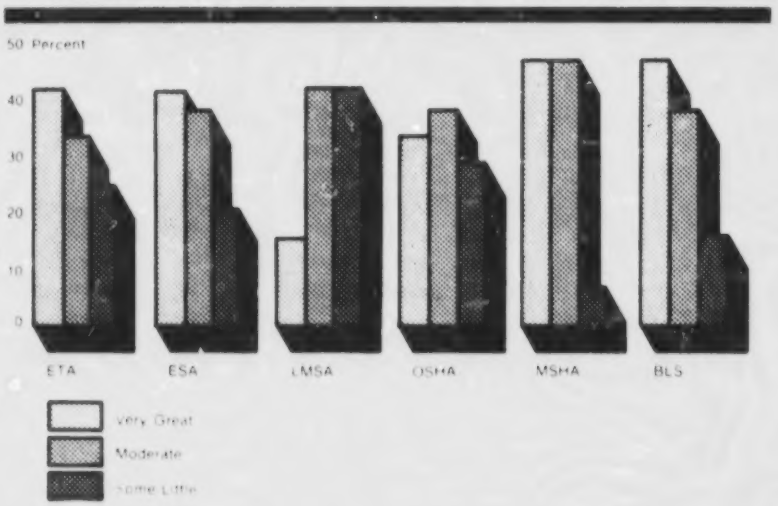
Figure 4.10 illustrates the level of managerial confidence in Labor's performance appraisal systems. The highest levels of confidence among managers were in MSHA and BLS (47 percent each) and the lowest in LMSA (16 percent). Overall only 38 percent of the managers felt Labor's appraisal systems reflected performance to a great or very great extent.

Figure 4.10: Levels of Managerial Confidence in Capability of Labor's Performance Appraisal Systems to Adequately Reflect Performance



In our interviews with field employees, 41 percent responded that the appraisal process, as it worked in their unit, seldom or almost never accurately measured performance.

Another illustration of the variations within the appraisal process among agencies is the distribution of outstanding performance ratings for GM managers. Under the performance management and recognition system now being implemented as a replacement for the merit pay system, ratings will continue to have a direct impact on pay decisions for these managers. Yet the ratings distribution for these employees in 1984 varied among the agencies. Table 4.1 illustrates these variations during 1984.

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Table 4.1

Ratio of Outstanding Ratings to Total GM Employee Populations by Total Agency and by National Office

Agency	Total agency	National office
BLS	1:22	1:17
ESA	1:19	1:12
ETA	1:11	1:8
MSHA	1:52	1:36
OSHA	1:7	1:4
Office of the Secretary	1:9	1:10

These ratios, for example, indicate that a GM manager in OSHA has a 1 in 7 chance of being rated outstanding while his or her counterpart in MSHA has a 1 in 52 chance of being rated outstanding. Under the new performance management and recognition system, a manager who received a lower performance rating would likewise receive a smaller bonus.

Enhance supervisory training and system evaluation

Only one in five program managers we surveyed believed to a great or very great extent that the Department's supervisory training program was effective. Moreover, 62 percent of the employees we interviewed believed that their immediate supervisors should have more training in setting performance objectives and standards, and two-thirds believed that training in employee motivation techniques would be desirable or very desirable.

Of the 127 employees we surveyed, 58 percent responded that their standards were clearly defined; this ranged from 3 out of 4 employees in one agency to 1 of 5 in another. When asked if they agreed with the expectations set in their standards, 60 percent did. Again, the variations among the agencies represented was significant, with 79 percent of the employees in one agency and 36 percent in another agreeing with their expectations.

A key element in setting standards is supervisory training in preparing standards. Each supervisor in Labor is required to attend a "core" supervisory training course. This course consists of a wide variety of subjects, of which 2 hours covers performance appraisal issues. Research has shown that, regardless of how well the appraisal system is designed, if

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supervisors are unskilled in administering it, it is not likely to work effectively. This was also the finding of the President's Council on Management Improvement in a study it commissioned on improving personnel operations. Many of the difficulties in implementing performance appraisal systems, according to this study, in the federal government are in administration, not design. This is because the systems emphasize outcomes at the expense of work planning and employee development. The report done for the President's Council states that a well-implemented performance appraisal program will have a training design that addresses four common problems in federal agency appraisal systems, two of which are present in Labor's systems.

--The frequent lack of clear employee performance expectations.

--The separation between appraisal results and rewards systems.

In addition to basic supervisory "core" training, Labor supervisors are provided maintenance training in appraisal systems. However, supervisors' attendance at this training has been limited. Even attendance at the basic "core" course has been uneven. In our survey of agency training offices, there were indications that the percentage of supervisors who have taken core training varied significantly among agencies. For example, in the national offices of ESA, MSHA, BLS, and OSHA, the percentage who attended was 98 percent, 76 percent, 54 percent, and 62 percent, respectively.

According to OPM and other experts, a rigorous evaluation process is a key ingredient to a high-quality performance appraisal system. Labor agencies, because of inadequate data, have not yet conducted a comprehensive evaluation of their GS performance appraisal systems. Current evaluation efforts of appraisal systems are done as a part of an overall personnel management evaluation, which is conducted by OASAM.

Because of the many units that make up the Department and the limited staff resources available, evaluations of GS performance appraisal systems have been limited to three Labor agencies. Labor, however, has evaluated each agency's appraisal process for managers in both the merit pay and SES systems. OASAM officials believe that any comprehensive review of the appraisal process for GS employees should be conducted by individual agencies. OASAM's role, according to these officials, should be to oversee agency systems through periodic personnel management evaluations and through analysis of performance data generated by the new personnel information system, once it is fully operational. Evaluations of these

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systems, according to the President's Council on Management Improvement, should focus on the following elements:

--Employee morale.

--Communications.

--Productivity.

--Extent to which organizational goals and objectives are met.

Recommendations to the Secretary of Labor

We recommend that the Secretary strengthen performance management throughout the Department by:

--Requiring each agency to review the operations of its appraisal systems with assistance and coordination provided by OASAM to assure that (1) performance expectations are accurate, (2) personnel actions are based on employee performance, and (3) wide variations in the application of Labor's policies are assessed and appropriately addressed.

--Directing OASAM, in cooperation with Labor agencies, to assess supervisory training needs in the area of performance management and provide training to meet those needs.

Agency comments and our evaluation

The Secretary generally agreed with our recommendations for strengthening performance management in the Department. Accordingly, Labor said it will ensure that managers support continued training on setting performance standards and that prototype standards are tailored to specific jobs. Also, the Department's new automated personnel information system will be used in evaluating the problems we identified in the application of performance-related personnel actions.

Labor noted that while it needs to ensure a linkage between employee population, performance ratings, rewards, and other performance-based actions, there is no set distribution of these factors and the linkage can only be made within reason. We acknowledge Labor's concern and believe that exploration of the reasons for wide variations among components should identify problems that might exist that need to be addressed. Further, we believe the actions Labor has agreed to take are responsive to our recommendations.

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IMPLEMENT A MORE SYSTEMATIC EFFORT TO MEASURE AND IMPROVE PRODUCTIVITY

Since 1979 Labor has operated under a Department-wide policy directed at improving its productivity, but little systematic action has resulted. The Grace Committee report on Labor and other recent initiatives have given further emphasis to this area. However, top management has not followed through announcing initiatives to see that plans and objectives are established as departmental policy calls for and that agency managers are held accountable for implementation. Although the agencies we reviewed (OSHA, ESA's Wage and Hour Division, and MSHA's Coal and Metal/Nonmetal programs) measure, to some extent, the quantity, quality, and efficiency of their work, they could better manage their operations by using more and better measures and better analyzing that measurement data. In addition, Labor does not have an adequate system for identifying and replicating productivity improvements. Consequently, Labor is not benefiting from productivity improvements that could be identified and implemented with a more systematic productivity management program.

Background

In 1973, OMB authorized a program "to encourage agency managers to make appropriate use of productivity data for assessing past trends and planning future requirements in organizational productivity." BLS collects data from departments or agencies and prepares analyses comparing (1) the efficiency of agency operations against similar operations in other agencies and (2) the efficiency of their own organization against that of past years.

Several Labor agencies participate in this voluntary program by submitting data on input (staff time) and output (numbers of activities) to BLS. Although BLS prepares the productivity reports on Labor agency operations, the Director of the Office of Information Management and Productivity stated that agencies do not use them to manage operations because the reports are issued so long after the reporting period or (in the managers' opinion) provide only limited coverage of Labor's functions. For example, the BLS reports for fiscal year 1983 were not issued until December 21, 1984, because (1) OMB delayed giving its approval to request data and (2) agencies took as much as 4 months to respond.

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Elements of a good productivity program

In our November 1983 report, Increased Use of Productivity Management Can Help Control Government Costs (GAO/AFMD-84-11), we analyzed many productivity programs and identified the following common elements of effective productivity management systems:

--A focal point for productivity management.

--Top-level support.

--Written goals, objectives, and an organization-wide plan.

--Meaningful measures of productivity.

--Managerial accountability.

--Continual identification of productivity improvement opportunities.

--Awareness of the need to consider productivity in management actions and systems.

Labor does not have a comprehensive program for managing productivity; its program lacks several elements, such as (1) adequate productivity measures at all levels, (2) an effective system to identify productivity improvements, and (3) specific written productivity goals and objectives as part of a comprehensive plan.

Labor's productivity policies and procedures

As noted, Labor has established a program for identifying productivity improvements. In 1979, the Secretary issued an order stating that increasing productivity was an official policy of the Department. This order assigned the Assistant Secretary for Administration and Management responsibility for developing, coordinating, and evaluating programs for promoting productivity and quality of working life improvements. The individual agency heads were assigned responsibility for developing and carrying out activities aimed at improving their organizations' productivity, and a Committee on Productivity and Quality of Working Life was established to advise the Secretary on such matters. According to officials in OASAM, this committee did not convene between 1980 and June 1985, none of the agencies implemented any formal productivity improvement programs, and OASAM's contributions were limited to providing advice and guidance when requested.

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In May 1984 another Secretary's order was issued reaffirming Labor's policy aimed at measuring and improving its productivity. This order responded to the Grace Committee report, which recommended that Labor develop programs for improving productivity measures and encouraging productivity improvements. A particular concern of the Committee was that Labor does not adequately measure the work output of its employees. Although we did not do a detailed analysis of all Labor productivity and performance measures, the Department has acknowledged that some positions do not have performance measures. The order assigned OASAM responsibility for

--developing guidelines for, and monitoring and evaluating the development of, individual employee quantitative output measures and agency measurement programs;

--coordinating the integration of agency-developed quantitative measures with existing quality and timeliness measures in the formal employee performance appraisal systems;

--establishing and carrying out a program for sharing, among Labor agencies, existing measurement systems and new productivity improvement ideas;

--assisting Labor agencies in implementing and evaluating their productivity measurement and improvement programs; and

--establishing processes for monitoring and reviewing the implementation of Labor agency systems which hold managers accountable for specific productivity improvement objectives.

As discussed later in this section, OASAM has carried out few of these responsibilities.

Overall performance is difficult to measure

Organizations in the private sector can be measured and compared using one generally accepted yardstick--profit. Unfortunately, most government units, including those of Labor, do not have a comparable unit of measure. Another issue making productivity difficult to track in Labor has been the number of policy changes affecting productivity which have not been considered. For example, OSHA has greatly increased the percentage of inspections that are conducted on construction sites. Inspections of firms in the construction industry require fewer hours and thus lead to an apparent increase in productivity. One reason for this is that, frequently, several

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firms are inspected at one location and these are counted as separate inspections. This policy change has reduced the average time per inspection and thus increased OSHA's productivity. However, we found no evidence that OSHA has measured to what extent this policy change has affected productivity. Finally, measures of the qualitative impact of MSHA or OSHA inspections (i.e., the reduction of accident, injury, and fatality rates) are limited because of factors beyond Labor's control. For example, general economic conditions have influenced the number of hours that the mining industry has operated. This, in turn, may have reduced accident rates because, according to a mine union official, less experienced and more accident-prone workers have been laid off. Because of this difficulty, we focused much of our assessment on operational efficiency.

Our analysis of operations in four Labor components shows that they vary somewhat in how their productivity has changed. We calculated the change in productivity, or operating efficiency, for four agencies or programs (MSHA Coal and Metal/Nonmetal, OSHA, and Wage and Hour) and for their component district or regional offices. For each agency we obtained the number of activities or outputs, such as mine inspections or wage and hour investigations, and the accompanying number of staff hours expended. We selected activities that accounted for more than half of the direct staff hours expended by the programs. For OSHA, Wage and Hour, and Metal/Nonmetal, we used fiscal year 1979 as the base year. We could not compare the coal program to the others because we had to use as its base year 1982, which was the first year for which staff hour data were available.[3] We calculated the change in productivity from 1979 to 1984 by comparing the change in the numbers of activities to the change of staff hours. We then compared the results of each agency, and its subordinate offices, to their own results in the base year.

The agencies we reviewed differed in their degree of change from the base year. For example, the 1983 productivity indexes, compared to the 1979 base year index of 100, were:

--OSHA	125.3
--Metal/Nonmetal	100.6
--Wage and Hour	97.4

[3]OSHA data were not available for fiscal year 1984 because its new ADP system is being implemented and reports were not available when we performed our analyses.

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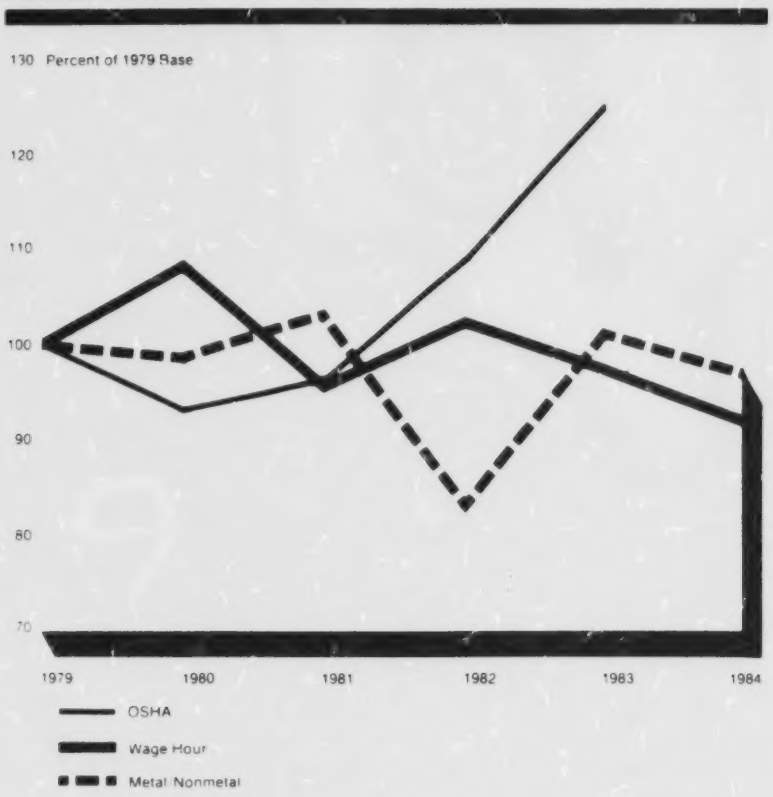
In other words, OSHA productivity rose about 25 percent in 4 years, while Wage and Hour and Metal/Nonmetal productivity showed little or no improvement. Figure 4.11 shows the changes from 1979 to 1984 for these three agencies.

Figure 4.11: Changes in Productivity Selected Labor Agencies



We found several reasons for the differences between programs shown above. For example, the Metal/Nonmetal program was subject to a disruptive RIF due to legislation which temporarily reduced MSHA's jurisdiction over some mining operations. Labor officials believe the reduced staff morale and the time spent on the RIF process caused metal/nonmetal productivity to decrease. The Wage and Hour Division now uses an improved management information system, which provides more accurate data than the previous system. Wage and Hour officials told us that, under the previous system, the number of activities was overstated by as much as 12 percent because the system accumulated some duplicate cases. Therefore, the base year statistics are overstated, and the 1983 index should not be as low as presented above. On the other hand, OSHA's productivity appeared to increase because, among other factors, the agency increased its emphasis on quickly performed

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construction industry inspections, thus reducing the average time spent per inspection.

Because of the limitations mentioned above, the results of our analysis should not be considered by themselves, but should be a starting point for more detailed analysis of programs and agencies and a systematic productivity enhancement effort. In addition to better analyzing the productivity data Labor already collects, it needs to (1) improve productivity measures, (2) improve its system for identifying and replicating improvements, and (3) strengthen its management of productivity.

Better analyze performance variations

Although the agencies we reviewed collect performance data by function and organizational unit, they do not generally analyze these data over time for each office. Although some agencies compare the results of component offices to regional and national averages, only one--ESA--of the three agencies' reports compare all component offices of a given region or agency to each other. In performing these types of analyses for three programs, we identified wide variations in productivity indices among field offices. These variations do not prove, but suggest to us, that substantial productivity improvements might be possible and should be explored. To illustrate, if the lower producing offices could perform as well as the higher producers, or at least increase their productivity improvement to the average level, Labor could realize significant cost or programmatic improvements, such as increased numbers of inspections for the same staff levels.

Using data Labor routinely collects, we developed productivity indexes which show the change in operational efficiency for the component regions or districts of the three programs for the 5-year period 1979-83. (See table 4.2 and figure 4.12.)

Table 4.2

Productivity Indexes for Three Programs for 1979-83

	Highest region or district	Lowest region or district	Range
OSHA	159	79	80
Wage and Hour	116	80	36
Metal/Nonmetal	115	82	33

The 1983 productivity indexes for all 10 OSHA regions are shown in figure 4.12.

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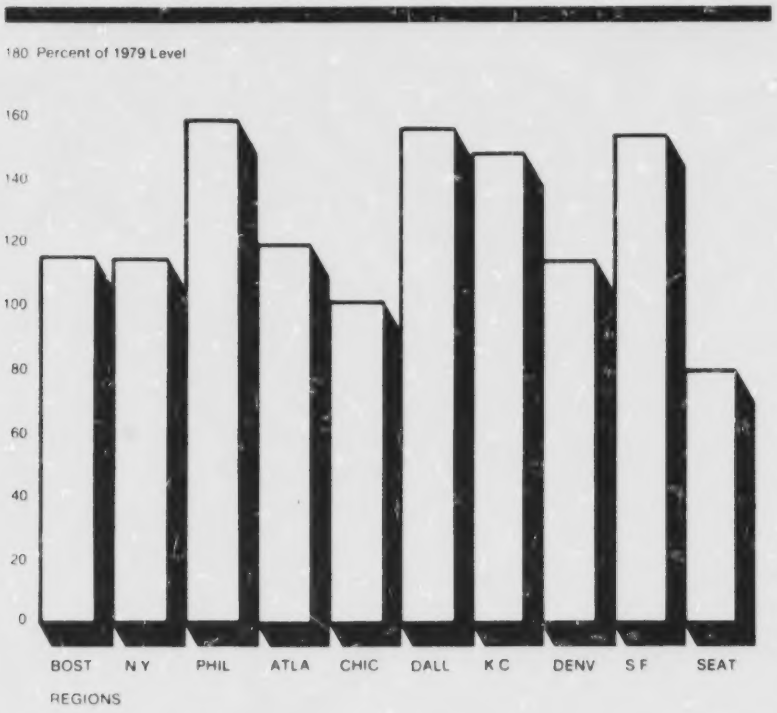
Figure 4.12: Occupational Safety and Health 1983 Productivity Level



We also found that within the regions, productivity varied among the component area offices. Because OSHA area office data were not available from 1979 through 1984, we analyzed data over different time periods. Specifically, in Atlanta we analyzed data from fiscal years 1981 to 1984, but in Chicago and Dallas we analyzed fiscal years 1980 to 1983. For example, the Atlanta OSHA region had a March 1984 productivity index of 127 compared to a 1981 base year of 100. However, its area offices varied from 92 to 166. The range of area office productivity for the three regions we reviewed is shown in figure 4.13.

We also analyzed some qualitative factors of Labor's output using the same method and arrived at similar variations. For example, ESA measures the amount of unpaid wages identified by its Wage and Hour investigations. The 1984 index (compared to a 1979 base year) ranged from 92 to 129 among the 10 regional offices and averaged 109.

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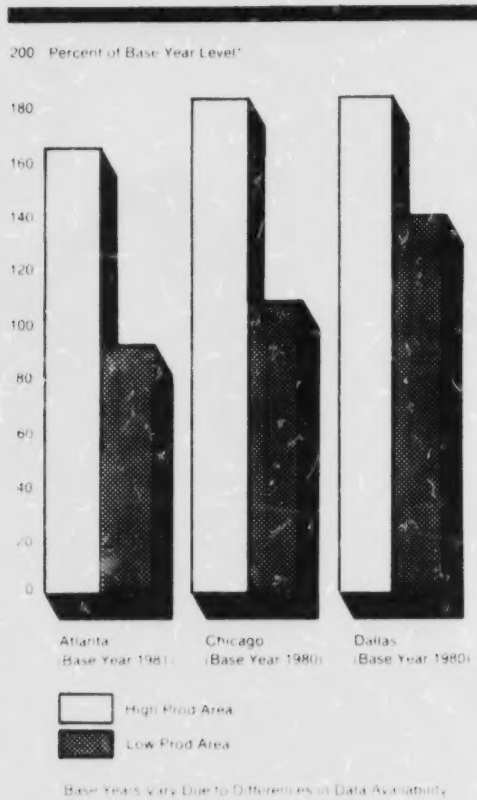
Figure 4.13: Occupational Safety and Health Range in Area Office Productivity



Two senior Labor officials were skeptical about how accurately these analyses could compare one region or area to others in the same program. They cited such differences as travel requirements, types of facilities to inspect, and the size of such facilities. Actually, we did not compare the absolute productivity of different offices, but the change in productivity of one office compared to others. Therefore, the factors mentioned by the Labor managers should not affect our analysis. (On the other hand, our analytical method may not be appropriate for very small units, such as MSHA field stations, because the factors mentioned above may influence the small number of inputs and outputs for one such office.)

Some programs, particularly Wage and Hour, use average time per activity to compare one region or area against the national average. This type of productivity measure is not very effective because the differences can be substantially affected by uncontrollable factors, such as those mentioned above. By using our type of analysis, management can use historical trends of the office or program being evaluated and thereby cancel many of the uncontrollable differences between offices.

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MSHA illustrates this point. Most MSHA officials we interviewed feel that it was not possible to compare efficiency data from various districts or field offices, or to compare performance using a productivity index, because of the diversity of mines in these districts. Although data on the number of inspections and the time it takes to conduct them are kept, MSHA managers at headquarters and the district offices we visited were not using these data to compare districts or historical performance. We believe that using a productivity index similar to the one we used overcomes much of the concern raised by MSHA officials because it compares the change in productivity for an individual office or the productivity change of different offices. By measuring the rate of change rather than just efficiency differences, variations in types of mines among offices or other environmental differences do not distort the results of the analysis.

Improve measures

To varying degrees, the agencies we reviewed measure the quantity, quality, and efficiency of their work, but they could improve these productivity measures to help manage their operations. The inconsistency of how these agencies use measurement data indicates the need for departmental level guidance and control. Improvements we believe Labor should make include developing measures for more positions, measuring unit costs for major activities, and developing better quality measures, including measures of customer service.

Measure more positions and unit costs

In 1983, the Grace Commission stated that there was a deficiency of quantitative output measures for the activities that individuals perform. A Commission survey found that only 57 percent of the supervisors indicated that most of their employees' work was measured. The Commission also found that where there were quantitative measures, they did not always clearly reflect an individual's work effectiveness. As reported in their findings, less than half of the supervisors felt that these measures were fair and equitable bases for evaluating individual performance. It was also reported that Labor's agencies' management information systems did not produce the information needed to evaluate the performance of individual employees.

Labor's May 1984 response to the Grace Commission Report stated that, of 12,559 nonsupervisory positions in GS-12 and below, 8,501 were adequately covered by standards. Of the remaining 4,058 positions, 2,318 were not analyzed by Labor, 966 were not measurable, and 774 needed standards developed. As of February 1985, Labor had not updated that report.

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Another concern raised by the Grace Commission was that Labor's information systems did not produce the unit costs of major activities, other than travel expenses. Our survey of program managers showed that most agencies still do not measure their unit costs. Such data can be an important tool for helping to contain costs by identifying wide variances for which the reasons should be explored. If management determines that certain variations are not justified, it can take corrective action.

Improve quality measures

In general, the Department can measure how much it does to a far greater extent than it can measure how well it does something. When we refer to quality of service and quality measures, we are concerned with several aspects of performance.

--Does an agency have measures that assess effectiveness (such as MSHA's accident, injury, and fatality rates), not merely quantity or numbers?

--Does an agency have measures for maintaining desired levels of performance judged against objective criteria?

--Does an agency have measures that assess the impact of service on client or customer groups?

In short, quantitative objectives or measures assess what is being done, while qualitative measures assess how well it is done. Specific program quality measures will vary from agency to agency and will have several dimensions. Labor does assess some aspects of quality for Wage and Hour, Coal, Metal/Nonmetal, and OSHA programs. More complete assessments of quality are needed in some instances. These additional quality assessments would give Labor better information on how well it performs its mission. If Labor had an effective Department-wide productivity management program, as called for by its current policy, OASAM would be in a better position to identify gaps in quality of service assessment. As a result, the Department could suggest effective methods to alleviate service shortcomings and effectiveness problems.

As stated, ESA (Wage and Hour), OSHA, and MSHA deal with the question of quality in various ways. Each agency has several measures of procedural quality--to ensure that inspectors comply with procedural requirements. All of these agencies use supervisory review of inspection reports and periodic accompaniment of inspectors by supervisors, and in some instances ESA performs independent supervisory reinspections.

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In addition, national or regional office staff periodically review field office operations to assess inspector compliance with established procedures.

In OSHA, data are kept that reflect the number of inspections and investigations conducted by field staff, but there were few measures of the quality of work performed by OSHA field staff. According to one OSHA headquarters official, quantifiable objectives and performance are compared only to national averages, not to any established performance standards. While inspection reports are reviewed for quality by area directors and, periodically, regional and national office staff, we found no evidence that any of these reviews are conducted to measure results against standards associated with expected levels of quality performance.

One independent measure of the quality of OSHA's work involves the use of employer and employee postinspection surveys. These survey questionnaires are distributed to the employer's representative and to an employee representative following the inspector's closing conference. These questionnaires are mailed to OSHA headquarters for analysis and tabulation. To date, most of these responses have been favorable, although only 10 percent of employers' and 5 percent of employees' questionnaires were completed and returned in 1984.

MSHA has several measures used in both the coal and Metal/Nonmetal programs that play an important role in its day-to-day management decision making. These measures are also considered to be important measures of quality of service (or performance). They are (1) fatality rates, (2) injury rates, and (3) accident rates. These statistics give an overall picture of MSHA's performance and quality of service. Two improvements in quality assessment that could be made are: (1) more systematically and formally gather customer feedback on the quality of inspections (using a procedure similar to the OSHA postcard technique) and (2) better assess the relevance of significant and substantial violation rates to all violations. Currently there is a wide gap among districts in the percentage of these violations that result from inspections. Expectations in this regard have not been spelled out and acted upon. For example, the low significant and substantial violation district in Metal/Nonmetal runs about 30 percent, while the high district runs at over 60 percent. We believe MSHA needs to more aggressively address this wide variation as it relates to quality of service.

In ESA Wage and Hour, a slightly different picture emerges. A wide range of quantifiable data is gathered--on

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investigations, compliance actions, and dollars recovered. Quality assessment focuses on both outputs and process. Outputs in this case are the dollars returned compared to the level of effort (staff hours spent on investigations) and cases found compared to level of effort. An example of quality as defined by process can be found in the Wage and Hour regional offices.

--Cases with low dollar amounts collected for the hours spent on the case are reviewed by regional staff.

--Annually, regional and area staff review procedures and an extensive sample of cases at one or two area offices.

--All cases sent through the regional office are reviewed for conformity with policy and procedures.

--A small number of cases are reinvestigated by supervisors.

San Francisco regional office officials stated that these factors are used in assessing performance, but we did not survey a sample of their appraisals to confirm or refute this.

Wage and Hour regions lack consistency in their definition of productivity. In Atlanta, dollars recovered appears to be the key productivity statistic, while in Dallas, performance against plan is considered the key productivity factor. Thus, different measures and definitions of quality are stressed, and they generally do not include our factors of relating inputs to outputs and analyzing changes over a number of years. The result is that different definitions of quality are used in different regions doing basically the same work. Thus, ESA lacks assurance that its regions are giving appropriate emphasis to those aspects of performance quality it desires. In commenting on this situation, ESA said that overall performance is judged primarily by achievement of all operational plan goals.

Improve system to identify and replicate productivity improvements

Field supervisors and employees we interviewed suggested many changes to their operating procedures that could possibly improve their productivity, but they have not submitted these, or other suggestions, to management. They said this occurred primarily because they were either unaware of Labor's employee suggestion program or believed it was too complicated, requiring too much analysis and documentation. Labor's employee suggestion program is its principal formal mechanism for

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eliciting productivity improvement ideas. Labor needs to improve this program and/or develop other tools to solicit and replicate worthy productivity improvement ideas.

Managers, supervisors, and other Labor field staff members gave us many reasons for their relatively high productivity or suggestions for improving their productivity. These suggestions related to management style, work scheduling, office automation, and human resource management. We believe that at least some of these ideas could lead to improvements in other offices. These factors or suggestions included the following:

--The Niles (Illinois) OSHA area director and the Tulsa (Oklahoma) Wage and Hour area director operate highly productive offices. They hold their staff members closely accountable for their work by daily reporting or other close monitoring and/or frequent training.

--MSHA inspectors in both the Coal and Metal/Nonmetal programs suggested that assignments of mine inspectors and working hours should be more flexible, which would reduce travel time. Also, although one field office manager we interviewed said that no further increase in the productivity of his inspectors could be made, his employees identified more than a dozen suggestions.

--The San Antonio ESA (Wage and Hour) area director and Metal/Nonmetal staff in the Dallas district suggested more use of computer terminals at the field office level to input data and to research and plan inspections, respectively.

An example of a potential enforcement program application that could increase productive capacity is an agency such as MSHA that collects a large data base of information on a major computer system. Excerpts of this information could be relevant to a particular type of inspection or to a company or plant location. The use of a portable terminal from the plant site to the agency computer could provide a faster means of entering the results of the inspection. An MSHA inspection that results in 10 violations requires that the inspector enter the basic company and site data on each of the 10 violations. The use of a portable terminal would allow a single entry of the general information to be printed for each of the 10 violations. Any such application would require a systems study and a complete equipment analysis.

Increased or more up-to-date use of automation to improve productivity at Labor appears to have great potential that should be explored systematically as a part of a comprehensive

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productivity program. We noted other indications of the need for this in addition to suggestions from Labor managers and employees. To illustrate, the need for increased automation has become a major issue involving the overall effectiveness of Labor's ERISA enforcement program, and in April 1985, OIG reported on the need for greater automated data management support in the Solicitor's Office, stating:

> "The virtual absence of an automated records management system within the Division of Employee Benefits precludes the adequate accountability for workload, case tracking or data management support requested by the Department of Justice . . ."

Strengthen productivity management

Labor does not have a fully operational productivity improvement program. The Department has the written requirements for such a program, as discussed earlier, but has shown little top-level emphasis, has assigned few resources, and has not provided any oversight. MSHA, OSHA, and ESA do not have specific productivity plans--although each has some productivity elements in their program plans. None of the agencies has submitted productivity plans to OASAM, as required by the 1984 Secretary's order. Although the agencies we reviewed have focal points for productivity, the officials we met were concerned generally with funneling data to and from BLS for the federal measurement project.

Nevertheless, some efforts toward improving productivity have taken place. In March 1985 OASAM issued an order that established the framework for a departmental productivity improvement clearinghouse. Beginning with the planning for fiscal year 1986, Wage and Hour headquarters staff will be using work-force productivity reports to compare the productivity of its regional offices. OSHA's Integrated Management System has many of the elements of an effective performance tracking system.

Issuing the clearinghouse directive has been OASAM's only substantive action concerning departmental productivity management. The head of the Office of Information Management and Productivity within OASAM told us that (1) no one on his staff is working solely on productivity issues, (2) he was not aware of any existing agency productivity plans, and (3) his office can provide little assistance to agencies due to his limited resources.

Although the Secretary's orders of 1979 and 1984 established general frameworks for productivity improvement

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programs, they rely on voluntary cooperation of the constituent agencies. OASAM is responsible for a number of guidance and monitoring duties, but it has assigned few staff resources to these duties. A further shortcoming of the Secretary's orders is that they do not establish any deadlines or other incentives for the agencies to comply with their responsibilities. Labor's written requirements are a good first step toward achieving a productivity improvement program, but much more action--such as holding managers accountable, providing incentives, and designating staff at all levels--will be necessary to achieve results. As our review has found, journeymen, first-level supervisors, and other field staff can generate many ideas that may lead to more efficient operations, if a less complicated system exists to incorporate them.

The effects of the above-mentioned shortcomings are difficult to quantify, but can be best described as lost opportunities. Without all the elements of an effective productivity program being in place at Labor, low-producing units and offices may not improve their performance. If there is no concerted effort to upgrade the productivity of low-producing units, then opportunities to improve overall agency productivity are being missed. These opportunities may affect unit efficiency, effectiveness, and responsiveness to customer needs.

Recommendations to the Secretary of Labor

We recommend that the Secretary implement a more systematic productivity improvement effort by:

--Holding agency managers accountable for designating focal points, demonstrating top-level support, and preparing and meeting productivity-related goals, objectives, and plans.

--Requiring managers to develop quantifiable, or at least observable, measures for as many positions as practicable in the Department. Included in these, to the extent possible, should be customer and quality of service measures.

--Directing program managers to routinely perform comparative trend and productivity analyses for their field offices.

--Providing effective mechanisms and incentives for identifying productivity opportunities. These should include holding managers accountable for appropriately

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addressing suggestions made and recognizing through awards, etc., awareness of any contributions toward increased productivity. Specific emphasis should be given to identifying and assessing enhancement opportunities available through increased use of computers.

Agency comments and our evaluation

In commenting on a draft of this report, Labor said that many of its components address productivity improvement, acknowledged that the improvements we identified need to be made, and outlined actions it would take to address our recommendations. The Department said that measures of productivity, operational efficiency, customer service, and programmatic results will be included in appropriate managerial performance standards and will be tracked when appropriate in the Department's Secretarial management system. In addition, Labor said that the Department's implementation of the pending executive order on federal government productivity should address many of the concerns we raised. The pending order is expected to require federal agencies to implement productivity improvement programs which generally contain the elements we believe are essential for an effective productivity program. We believe the actions Labor agreed to take are responsive to our recommendations.

Labor also expressed concern because it perceived we were recommending that it establish a productivity improvement and measurement effort that will be separate and apart from its existing management process. This is not the case. We believe that an effective productivity management and improvement program should contain the seven elements we described, but that the elements should be integrated as much as possible into the agency's management systems, including Secretarial and component planning and performance management systems.

In addition, OSHA officials noted that their inspectors have performance standards that are directly related to levels of performance. However, these standards do not indicate what performance characteristics are expected for (1) assessing the quality of the inspection or (2) assessing the inspector's actual level of performance. We discussed this subject with OSHA's director of field operations, who said that quantifying the performance of compliance officers would be difficult, but OSHA would explore doing so.

	OPERATE IN A MORE BUSINESS-LIKE MANNER
PROBLEMS	o Agency limitation fund balances are often exceeded, raising the potential for Anti-Deficiency Act violations. o Financial reports are not always received or used by managers and do not compare actual to planned performance. o Ineffective departmental control over agency financial management improvement projects and inadequate control over OSHA accounts receivable. o FIA accounting system review effort was minimal. o Capitalized property needs to be adequately controlled and reported.
RECOMMENDATIONS	o Better control funds. o Improve financial reporting. o Better control financial management improvement projects. o Enhance FIA accounting system review effort. o Improve accounting for personal property.

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SECTION 5: OPERATE IN A MORE BUSINESS-LIKE MANNER

Labor needs to strengthen its management and control over financial resources. In fiscal year 1984, the Department received $34.8 billion in spending authority to perform its mission. To control its financial resources, Labor maintains a financial management structure consisting of 18 operating systems. Our review disclosed the need for strengthening that structure throughout the Department, including OASAM, the Comptroller within OASAM, Regional Administrators, and major line agency management.

Department of Labor's financial management environment

Labor's funding comes from the following major sources:

--Three trust funds, the largest of which is the Unemployment Trust Fund maintained by the Treasury and supported by states and federal unemployment tax receipts.

--Funds appropriated by the Congress.

--Collections from federal and nonfederal sources, the largest of which are collections from other federal agencies for payment of benefits under the Federal Employees' Compensation Act.

Of the $34.8 billion in fiscal year 1984 budget authority received by the Department, $32.8 billion (or 94 percent) was for ETA.

Financial management responsibilities

The Department's key financial management responsibilities are carried out as follows:

--OASAM develops policy and furnishes leadership and guidance to Department managers in the fields of budgeting, grants, procurement, financial policy and systems, and accounting services. OASAM is also responsible for establishing and maintaining an adequate system for accounting and financial management for all funds, property, and other Department assets.

--The Comptroller (under OASAM) is responsible for Department-wide accounting and financial systems for all Labor funds. The Comptroller is also responsible for

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budget formulation, the management of cash and other assets, payment activities, debt collection, and accounting and financial management systems.

--Regional Administrators have a Division of Financial Management. Each region submits accounting data for processing through the Integrated Accounting System (IAS).

--Major line agencies with accounting systems or subsystems have national offices which accumulate, summarize, and process accounting data.

Financial management structure

Labor's overall financial management structure consisted of 18 systems in fiscal year 1984. They are used to (1) develop the annual budget request; (2) control appropriated funds and other resources; or (3) authorize transactions, capture, record, process, summarize, and report all financial and relevant quantitative information related to the execution of budget authority.

There are six Department-wide systems: the Budget System, IAS, the Interactive Payroll System, the Automated Purchase and Payment System, the Departmental Property Management System, and the Working Capital Fund.

IAS (1) maintains summary accounts of receipts, disbursements, assets, liabilities, and appropriated funds; (2) reports on the status of appropriated funds and other resources; and (3) reports on the financial results of program and administrative operations. IAS is a centralized system with decentralized input of financial transaction information through remote computer terminals at 17 locations (10 regions, 6 agency national offices, and the Department's headquarters). Each departmental appropriation has a separate general ledger identification for accounting and reporting. Funds are accounted for by appropriation, program, and organizational structure.

Within the financial management structure, the Department either administers or interfaces with three trust funds: the Special Workers' Compensation Expenses Trust Fund, the Black Lung Disability Trust Fund, and the Unemployment Trust Fund. The Special Workers' Compensation Expenses Trust Fund is administered by the Department.

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In addition to the six Department-wide systems, there are 12 subsidiary systems, including the Pension Benefit Guaranty Corporation Accounting System, which interface with IAS. A list of these systems follows.

ETA

Regional Automation System
Contractor-Held Property System

ESA

Special Fund Accounting System
Back Wages System
Federal Employees' Compensation System
Black Lung Payment System

OSHA

Penalty Accountability System

MSHA

Assessment Data Base Management System
Property Management System
Financial and Management Information System

BLS

Labor Market Information Payments System

PBGC

Accounting System

BETTER CONTROL FUNDS

The Department did not have adequate control over its fiscal year 1984 financial resources at the agency limitation level. Limitation authority issued to agency operating officials was exceeded, and established fund control procedures were not followed. Numerous deficit limitation balances occurred in fiscal year 1984, indicating inadequate control of funds at the nonstatutory level and increasing Labor's vulnerability to violating certain provisions of title 31 of the U.S. Code, commonly referred to as the Anti-Deficiency Act.

Adequate control over financial resources is important since the Department spends billions of dollars each year to operate its programs. In fiscal 1984, Labor received 21 apportionments from OMB. Labor officials distributed the apportionments by

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issuing 56 allotments, which were further subdivided into about 255 nonstatutory agency limitations.

The law (31 U.S.C. 1514), requires every agency to have a system of administrative control of funds that will restrict obligations or expenditures to the amounts appropriated to applicable fund balances and to the amounts of apportionments or reapportionments made for the current fiscal period. The requirements for these systems are prescribed by OMB in its Circular A-34 and the related guidelines. To control funds adequately, there must be an effective verification of available funds (positive knowledge) before creating an obligation, and obligation information must be accumulated and reported promptly and accurately.

The Department's administrative control of fund procedures include a system for positive administrative control of funds designed to restrict obligations and expenditures against each appropriation or fund to the amount available therein. The procedures fix responsibility for overobligating apportionments and allotments subject to the Anti-Deficiency Act and exceeding nonstatutory restrictions imposed by the Department. Fund control responsibilities for various levels of management are as follows.

--Agency heads and program managers are responsible for overseeing the status of allotments and distributing obligation authority in the form of agency limitations.

--Agency budget officers are responsible for ensuring that agency limitations issued are within amounts allotted and that obligations incurred do not exceed the limitation amounts.

--Regional administrators and other operating officials who receive agency limitations are responsible for ensuring that obligations and expenditures incurred are within their limitations.

--OASAM's Regional Administrators are responsible for departmental management accounts of the regions. In addition, OASAM's Financial Management Advisors are to assist agency officials when financial reports indicate overobligations by calling possible violations to their attention.

--OASAM's Director, Office of Accounting, is responsible for maintaining an accounting system that provides prompt, accurate, and complete recording of financial transactions affecting fund control. He is also responsible for

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notifying agency heads, program managers, and OASAM's Office of Budget when financial reports indicate that an agency limitation has been exceeded.

Although these responsibilities, if followed, provide effective fund control at each level of management, our review disclosed that these responsibilities were not always carried out. Specific problems, which can adversely affect Labor's ability to adequately control and accurately report financial resources, are discussed below.

Obligation authority issued in excess of apportionments

OSHA and MSHA issued obligational authority to their components that, in total, exceeded certain quarterly apportionments received from OMB. The agencies' allotment authority was also exceeded, since it was the same as the apportionment. Although excess authority was issued, actual obligations and expenditures incurred did not exceed the apportionment.

The Department's administrative procedures for controlling funds provide that allotted funds are distributed by agency or program managers to operating officials at the national and regional offices in the form of agency limitations. The limitations provide the officials with authority to obligate and expend funds, but they may not exceed, in total, the allotment. Agency budget officers are responsible for ensuring that agency limitations issued are within amounts allotted to the agency. Agency heads who receive allotments are responsible for distributing agency limitations to operating officials and overseeing the status of allotments received. Department officials have violated Labor's fund control procedures if they issued agency limitations in excess of the related allotment by quarter or in total for the fiscal year. Despite these provisions, OSHA and MSHA officials issued agency limitations in excess of quarterly apportionment and allotment authority.

OSHA received apportionment and allotment authority of $138 million for salaries and expenses as of March 31, 1984. However, as of that date, OSHA's budget office issued limitations totaling more than $143 million, an excess of $5 million. Furthermore, as of June 30, 1984, a similar situation existed where limitations issued exceeded total available authority by over $750,000. The issuance of excess authority occurred because OSHA did not review its limitations considering the quarterly requirements of OMB's apportionment and the Department's allotment authority documents.

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MSHA issued obligational authority of $139 million to its operating officials as of January 1984. However, its first and second quarter apportionment and allotment authority amounted to only $79 million at that time. Further, in the third quarter, the remaining annual apportionment authority was issued. As a result, by April all of MSHA's annual apportionment of $151 million was issued even though $36 million was for the fourth quarter.

Issuing excessive limitation authority can lead to a violation of the Anti-Deficiency Act. The act prohibits any officer or employee of the United States from authorizing or creating any obligation in excess of the amount permitted by an OMB apportionment or agency allotment. Although we did not find any such violations, we believe that issuing limitations above apportionment and allotment authority increases the risk of a violation of the act.

Agency limitations not adequately controlled and monitored

Agency limitations issued to operating officials were not adequately controlled and monitored. Fund status was not always reviewed as required by Labor's fund control procedures. As a result, numerous deficit agency limitation balances occurred and continued for many months. For example, on June 30, 1984, the Daily Status of Funds report showed 58 deficit limitation balances valued at over $18.9 million. Deficits occurred at national and regional office levels. Table 5.1 shows deficits by agency during a 4-month period. Factors contributing to the deficit limitation balances follow.

Agency limitations issued and recorded late

Agency operating officials incurred obligations without having the required agency limitation authority. In some instances, operating officials did not receive agency limitations before incurring obligations. For example:

--In the Dallas region, such program activities as the Women's Bureau, Regional Representative, and Civil Rights incurred obligations based upon operating plans rather than limitations. The data were not recorded in fund status reports, causing a $374,000 deficit in the Daily Status of Funds report on June 30, 1984.

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--An OSHA Regional Administrator incurred over $2.6 million in obligations without limitation authority. OSHA received its apportionment and allotment authority by December 1983, but did not provide limitation authority to the Administrator until March 1984.

Table 5.1

Number of Deficit Limitation Balances on Labor's Daily Status of Funds Report During 4 Months Ended September 30, 1984

Agency	June 30	July 31	Aug. 31	Sept. 30	Total
ETA	12	21	18	9	60
ESA	1	0	4	0	5
OSHA	5	0	2	0	7
BLS	2	3	2	0	7
Bureau of International Labor Affairs	5	4	4	1	14
Departmental Management	27[a]	29[a]	16[a]	4[a]	76[a]
Office of Solicitor	5	0	0	1	6
MSHA	1	1	1	2	5
Total number of deficit balances	58[b]	58	47	17	180
Total dollar amount of deficits (millions)	$18.9	$13.8	$84.6	$2.4	$119.7

[a]Departmental Management includes LMSA data.

[b]The 58 deficits on June 30 recurred in succeeding months, as follows: 43 in July, 31 in August, and 4 in September.

Also, OASAM's Office of Accounting was late in recording limitations, causing deficit balances in fund status reports. For example, eight limitations for the quarter beginning July 1 were not issued by one office until July 24, 1984, and were not recorded until August. As a result, the July fund status reports understated regional officials' obligational authority by about $1.2 million and showed deficit balances totaling $724,396. Some

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limitations were recorded late because they were dated near or at the end of the month and were sent to OASAM by internal mail.

Labor's procedures state that agency limitations must be recorded in the formal books of account immediately upon issuance. Accordingly, limitation authority should be issued before obligations are incurred and should be promptly recorded in official fund status records.

Obligations exceeded limitation authority

During fiscal year 1984, Labor's agencies issued to national and regional office operating officials over 250 agency limitations. Some officials incurred deficit limitation balances by obligating more funds than authorized. For example:

--One regional office limitation account had a deficit balance for many months. At June 30, 1984, total obligations were $1,004,382, while limitation authority was only $572,852. Our review disclosed that a regional director for the Veteran's Employment Service received $572,852 in limitation authority and obligated $629,798, incurring a deficit of $56,946. The remaining deficit of $374,584 was caused by agency officials of other program activities who incurred obligations but did not receive agency limitations from the Department. Because IAS consolidates these activities by appropriation, the regional account had a deficit of $431,530 on the June 30 Daily Status of Funds report.

--An ETA Bureau of Apprenticeship and Training account had eight monthly deficit limitation balances ranging from $2,531 to $63,934. Five of the eight deficits were caused, in part, by obligating funds in excess of agency limitation authority. According to OASAM's Regional Financial Advisor, previously recorded estimated obligations were not deobligated when the bills were paid. Instead, new obligations were processed and liquidated while the estimated obligations remained on the accounting records.

Lack of review of fund status

Agencies were not adequately monitoring fund status. As a result, material errors remained undetected during the year, causing deficit limitations and erroneous data on fund status reports. Labor's procedures provide that budget officers, on behalf of their agency heads and program managers, are responsible for monitoring the activities of their operating

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officials to ensure that those officials conduct periodic reviews of the status of their funds throughout the fiscal year. Examples follow:

--One ETA regional official's limitation showed a deficit balance of $5,599 on June 30, 1984. After our inquiry in September, officials found that the records contained 15 errors that overstated obligations by $13,270, causing the deficit. The correct unobligated limitation balances should have been $7,670. The regional officials were not aware of the deficit balance because they did not review the detail fund status report. OASAM later corrected the errors but shortly thereafter reversed this action when the national budget office redistributed $10,500 to cover the deficit. As a result, the official's limitation balance at September 30, 1984, contained $13,270 in errors and was understated by $2,770.

--Two regions incurred deficits in their limitations by recording obligations in the wrong fiscal quarter. For example, in one region, obligations totaling $3.1 million were erroneously recorded in June 1984, instead of July. The regional official who received the agency limitation was not aware of the error until the national office brought it to his attention in August, after our inquiry. Obligation errors in the two regions primarily caused a $5.4 million deficit in one of the Departmental Management allotments. The deficit was eliminated in August.

In our view, unawareness of deficit balances is attributed, in part, to nonuse of fund status reports. In addition, 33 of 145 officials we surveyed indicated that they were generally not satisfied with the accuracy of fund status information.

OASAM not monitoring deficit limitation balances

OASAM's Office of Accounting did not monitor fund status reports for deficit limitation balances and notify responsible personnel. Labor's procedures provide that the Office of Accounting notify in writing the responsible agency head or program manager (with a copy of the notification sent to Labor's Comptroller) when accounting system financial reports indicate that an agency limitation has been exceeded. Operating officials are to give the agency heads or program managers an adequate explanation (e.g., if an error occurred) or report a violation.

We noted that the June 30, 1984, Daily Status of Funds report showed nine appropriation accounts with 58 deficit limitation balances. The deficits involved nine agencies and

offices. Discussions with accounting and budget officials disclosed that written notifications were not sent to agency heads or the Comptroller, as required. Instead, the accounting staff for expediency reasons would attempt to correct and adjust deficit balances by telephone.

After our inquiry, the Office of Accounting sent memorandums to agencies that had deficit limitation balances in August 1984. However, our review of the memorandums disclosed the following problems:

--Only 42 memorandums were sent even though 48 deficit balances occurred in August's fund status reports.

--The memorandums were sent to agency budgeting and accounting staff rather than to agency heads or program managers as required by Labor's procedures.

--Copies of memorandums were not sent to the Comptroller.

--Deficit balances on two memorandums were incorrectly stated by the Office of Accounting.

We further noted that memorandums were not issued for 17 deficit balances occurring in September. OASAM's failure to notify agency officials of deficit limitations renders inoperative this important oversight function provided for in the Department's procedures. The procedures provide a mechanism for keeping agency top management informed of the occurrences and causes of deficit limitations.

Recommendation to the Secretary of Labor

Labor's procedures for controlling funds are adequate, but managers at several levels were not held accountable for following them.

To strengthen control over funds, we recommend that the Secretary hold managers accountable for complying with the Department's Administrative Control of Fund procedures to ensure that

--agency heads and program managers issue obligational authority within OMB's apportionment,

--agency operating officials do not incur obligations without having obligation authority,

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--agency budget officers promptly issue and distribute their limitations to limitation holders and to OASAM for recording in the accounting records,

--OASAM's Office of Accounting records all agency limitations when received,

--agency budget officers, OASAM, and Regional Administrators do not allow obligations to exceed limitations issued,

--agency operating officials review fund status in order to minimize deficit limitation balances, and

--OASAM's Office of Accounting notifies in writing responsible officials when agency limitations have a deficit balance.

Agency comments and our evaluation

Labor agreed that its formal funds control practices need to be more carefully followed. In fact, the Office of the Comptroller has undertaken and nearly completed the corrective actions we recommended.

However, Labor noted that GAO found no Anti-Deficiency Act violations and pointed out that GAO did not review other mechanisms outside the formal accounting system that Labor uses to control funds. The Department also indicated that upgrading its Integrated Accounting System would greatly improve the efficiency of its financial review process.

Our report clearly states that we found no Anti-Deficiency Act violations during our review. We also recognize that managers may use various information sources to help manage their funds and operations; however, we believe that sources other than the official fund control system cannot provide the positive control required by GAO title 2 and that these other sources should not negate the need to follow the official system. The fact that numerous deficit limitation balances existed and in some cases were allowed to recur in succeeding months indicates Labor's funds control mechanisms were not working adequately. Finally, we recognize that Labor's Integrated Accounting System could be upgraded, but the problems we noted can be corrected within the current system's operation.

IMPROVE FINANCIAL REPORTING

Financial reporting needs improving to effectively control and manage resources. Managers need to receive and use financial

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information that will enable them to (1) plan the use of their financial resources, (2) stay within spending limits, and (3) compare actual operating performance to plans. We found that Integrated Accounting System financial reports

--are not always received by operating officials,

--when received are often not used,

--do not contain planning data, and

--need to be reevaluated periodically to determine their adequacy.

IAS financial management reports produced

The Department provides agency management with a variety of financial reports. Specifically, IAS generates two basic types of reports, the Financial Management Reporting System reports and the fund reports.

The reporting system makes available to agency managers seven types of reports. Data produced include costs and obligations by appropriation and budget activity, and costs and hours by job order, program, and object class. The data are available by cost center, region, agency, and summary levels.

Major objectives of the reporting system are to (1) give managers the actual costs of operations, (2) give managers historical data for planning the use of their resources, (3) give managers the variance between planned and actual costs, (4) relate program performance to costs incurred in executing the program, and (5) alert managers to possible financial management problems in their operations.

IAS provides managers with 10 fund reports to control funds received and used. The Daily Status of Funds and monthly Detail Fund reports show, for agency limitation and total allotments, the amount of authorized funds, the obligations incurred, and the unobligated balance. Three summary reports provide summary data on an obligation basis by object class and cost center.

Financial management reports not always received by managers

Managers were not always receiving financial management reports to help them manage their operations. Headquarters administrative offices, which generally received the reports, frequently did not distribute them to managers.

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Headquarters accounting and budget offices received reports but did not distribute them to managers within three of seven agencies we reviewed. For example, in ETA, managers received program data generated by their Regional Automation System, but it did not include Salaries and Expenses budget category funds. OSHA's administrative office received only one report and used it, rather than distribute it. OASAM's financial services office received reports but did not distribute them to managers. Altnough MSHA and BLS managers did not receive reports, they received instead reports from their own subsystem or information system.

Managers who are agency limitation holders in headquarters or in the region did not receive the Daily Status of Funds Report. (The "Daily" report is usually printed about twice a week, generally when transactions are processed.) The system produces a monthly Detail Fund Report in addition to the Daily report, but agency administrative offices (headquarters accounting or budget offices, and regional OASAM representatives) generally distributed only the monthly report to limitation holders.

The Daily report can be a valuable tool for determining fund status because it enables a determination of fund status during the month. As discussed in our item on funds control, limitation holders need to know their fund status in order to avoid exceeding their authority. Currently, limitation holders use the monthly detail report, which shows fund status only at monthend, and/or manual supplemental records.

Financial management reports received but not used

Several managers interviewed in headquarters and field offices received IAS reports that they did not use. Some managers did not use reports because (1) they did not know the purpose of the reports or how to use them, (2) the reports were not always in a format that was useful to them, and (3) the reports were not considered accurate.

For example, some regional officials indicated that they did not use certain reports because they could not understand the format and details, considered the report too complicated, or did not know how to analyze or use them. In addition, two document coding problems affected the accuracy of reports: the coding of travel documents and the recording of deobligation transactions. Travel costs were often charged to the wrong cost centers, and agency personnel failed to deobligate travel obligations, causing duplicate obligation amounts to remain on the accounting records.

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As a result of inaccuracies or other problems with fund status reports, 48 managers at both regional and headquarters offices responding to our questionnaire said they maintained supplemental manual records. For example, two officials we interviewed at BLS headquarters said they maintained supplemental travel and purchase records because of numerous field coding errors in these areas.

Labor's FIA report for 1984 discussed a plan to improve travel processing. The report pointed out that travel represents nearly 40 percent of the nonpayroll transactions processed in IAS, and that a travel control and management information system would be developed in fiscal year 1985, with completion scheduled for fiscal year 1986. We have since learned that this project has been delayed due to budgetary constraints.

We did not do a detailed analysis of how individual documents are processed through the accounting system. Based on our interviews, we believe there is a need for management to investigate the extent and causes of these specific coding problems, their impact on report accuracy, and the corrective actions necessary.

IAS reports do not contain planning data

Management reports produced by IAS do not contain planning data. As a result, managers cannot use this basic management tool to compare operating performance to plans and must rely on other sources.

IAS produces many monthly reports which were designed to allow for inclusion of obligation or cost-based planning data, to enable managers to compare actual results to plans or operating budgets. OASAM's Office of Accounting advised us that IAS can accept and report planning data, but that agencies have generally not provided such data. Instead, agencies usually prepare reports of their own showing some comparative data. ETA and ESA prepare quarterly reports with comparative data. OSHA manually prepares highly summarized data periodically. At MSHA, monthly automated reports are produced from its feeder accounting system. BLS inputs IAS-reported actual results to its automated Management Information System, which contains planning data. Also, OASAM receives a specifically requested IAS report with comparative data for Departmental Management activities.

Labor's procedures provide that financial reports track planned and actual performance, hours, costs, and obligation data in ways that allow managers at all levels to compare actual performance against planned performance and take corrective

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action. Performance factors and planned performance must be input to the system. Each agency has the option to submit obligation planning information for presentation in the reports in order to facilitate variance analysis of actual versus planned obligation activity.

We noted earlier that agency managers were not always using IAS reports. We believe that if the reports received by managers included comparative data, the value of the reports to managers would be enhanced. It would provide greater incentive for managers to use the reports in monitoring their operations and programs, and in carrying out their decision-making responsibilities.

In view of the vast number and types of IAS reports produced, we recognize that managers may only need comparative data on a selective basis. Accordingly, we believe that as part of an overall IAS report reevaluation effort, OASAM, in conjunction with agency management, needs to determine the specific comparative data that could be provided to managers within the present IAS reporting process.

Financial reports need to be reevaluated

The Department has not periodically reevaluated the IAS financial management reports to determine if they are meeting management's needs. As discussed earlier, agency administrative offices frequently did not distribute reports to managers, and reports received by managers were often not used.

According to OASAM's Office of Financial Policy and Systems' mission statement, this office has responsibility for providing professional advice and assistance to components of the Department on financial accounting and reporting activities. However, our review disclosed that the office does not periodically reevaluate financial reports. In our opinion, the Department cannot effectively determine the usefulness of reports to managers if periodic reevaluations are not performed.

Recommendations to the Secretary of Labor

We recommend that the Secretary direct the Assistant Secretary for Administration and Management to:

--Periodically reevaluate IAS financial management reports to ensure that they effectively meet managers' needs.

--As part of the overall report reevaluation effort, determine the comparative data needs of managers that could be met by the IAS reporting process.

--Investigate the extent of and causes of specific accounting document coding problems and their impact on report accuracy.

Agency comments and our evaluation

Labor agreed that financial reporting could be improved by providing a better interface of departmental and component agency systems to ensure that timely and accurate information is provided regularly to all agency limitation holders throughout the Department. Labor plans to initiate improvements in this area and in the process reevaluate existing financial management reports. Further, Labor said it is developing plans to modernize IAS and will implement them as resources permit.

BETTER CONTROL FINANCIAL MANAGEMENT IMPROVEMENT PROJECTS

There is no effective departmental control over agency financial management improvement projects. As a result, agencies are designing and implementing new projects with no Department-level monitoring to ensure that agency project management is adequate and that the projects are consistent with departmental policies and the Comptroller General's principles, standards, and related requirements. In one case, which we describe in detail, the importance of departmental and agency project management is exemplified in OSHA's efforts to solve continuing problems in controlling and reporting its penalty accounts receivable.

We requested an inventory and information on all financial management improvement projects. To obtain these data the Comptroller's Office of Financial Policy and Systems (OFPS) had to contact each departmental agency. In addition, OFPS apparently did not have any involvement in the agency projects. It appears that each agency initiates and manages its own projects with little or no assistance from OFPS.

Department Comptroller responsibilities

The Comptroller is responsible for establishing and approving program accounting and financial management systems and for providing technical guidance and assistance to components authorized to operate such systems. Agency heads are responsible for obtaining approvals from the Comptroller for the establishment and maintenance of program accounting systems and for coordinating the development of revisions of program

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accounting systems with the Comptroller at the inception of the planning stage so that cognizance may be given to accounting implications.

OFPS' mission and function statement states that it is responsible for monitoring the design or redesign and maintenance of all accounting systems in the Department, providing professional advice and assistance to components of the Department concerning accounting and reporting activities, and reviewing and approving internal systems and procedures in the national and regional offices for consistency with prescribed departmental and Comptroller General policies and standards.

Examples of agency systems not under departmental control

Following are two examples of agency system projects that were not under departmental control. Because of its impact on OSHA's financial accountability and internal controls, one case is described in detail.

--For about a year BLS designed an "Accounting Input System," which was implemented in February 1985. This computerized system provides for data entry by terminal to magnetic tape, and punch card preparation for input to IAS. We noted that BLS did not notify OFPS of this project. OFPS was not otherwise aware of this project and therefore did not evaluate it.

--OSHA has designed and implemented an Integrated Management Information System, which incorporates a system for controlling penalty assessment accounts receivable and collection. This major project has been under development for a number of years and is expected to be implemented at 72 OSHA area offices. Our review disclosed that OSHA and OFPS accountants did not actively participate in developing the financial portion of the system. Accordingly, the project did not benefit from the technical expertise available within both the agency and the Department.

Because of continuing problems in controlling and reporting OSHA's penalty accounts receivable and the impact of this system on these problems, we conducted a detailed review of this area. The results of our review follow.

Actual OSHA accounts receivable not known

Because of weaknesses in OSHA's system for controlling receivables from penalties, OSHA does not know the actual receivables due the government and estimates are reported to the Treasury. At the end of fiscal year 1984, an estimate of $6 million was reported.

Our review disclosed that

--accounts receivable reported to the Treasury have been estimated in recent years,

--receivables were not updated or validated when implementing a new system,

--software problems have surfaced in getting the new system to work properly,

--available accounting expertise in the Department and OSHA was not used in developing the new system, and

--interim measures could be taken to improve the reporting of receivables until the new system is working properly and fully implemented.

OSHA needs to have reasonable assurance that receivables applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained. In addition to the above internal control objective, OSHA needs to know that its claims are valid and overdue, and that changes in the status or amount of each claim are promptly recorded, in order to effectively implement collection action under the Debt Collection Act of 1982.

Background

The Occupational Safety and Health Act of 1970 authorized the Secretary of Labor to enforce compliance with standards through workplace inspections and penalties for violations. This responsibility is carried out by 72 area offices. OSHA compliance officers inspect workplaces, and when a violation is found, the employer is sent a written citation of the standard violated, the period of time for its correction (abatement period), and any proposed penalty. At this point, the area offices establish an accounts receivable. Changes to the employer's account occur when payments are received or a settlement is negotiated.

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Estimated receivables reported to the Treasury

OSHA reports its accounts receivable to the Treasury Department quarterly, on a Report on Status of Accounts and Loans Receivable Due from the Public (Schedule 9 of SF 220). We reviewed fiscal year end 1982-84 reports and found that the receivable balances reported were estimated. At the end of fiscal year 1984, an estimate of $6 million was reported. The estimates were reported because OSHA did not know its receivable balances.

In Labor's December 1984 Federal Managers' Financial Integrity Act report to the President, it said that no single system adequately maintains or reflects the status of penalties under the Occupational Safety and Health Act. It also stated that because of inadequacies in the formal management information system for collecting data on penalties, the agency has consistently used estimates to project the overall status of accounts receivable. Further, it pointed out that an automated Penalty Accountability System was currently in the initial design stage.

Status of the Management Information System

Under the current system, area offices mail to the national office all data related to accounts receivable, with actual collections forwarded to a depository lockbox. OSHA's national office inputs these data to its computerized management information system. The financial portion of the system is known as the OSHA Penalty Accountability System.

In recognition of system deficiencies, OSHA is implementing a new Integrated Management Information System, which automates data entry at the area office level. In April 1984, the Jacksonville area office began piloting the conversion to the new system, which is tentatively expected to be implemented at all area offices in fiscal year 1986.

Receivables for Jacksonville overstated

Because OSHA is initially implementing its new system at the area office level at Jacksonville, in March 1985 we performed a review at this office to determine the status of its receivables.

Our review disclosed that as of September 30, 1984, the national office accounts receivable balance for Jacksonville was overstated. We noted that OSHA did not update or validate the

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receivable records during implementation of its new system. In addition, the new system could not process adjustments to accounts receivable because the software program was not yet operating properly. We also noted that not all receivables and payments received were reflected on system reports.

OSHA's automated system at the national office showed that for the Jacksonville office, $63,430 was due from 79 accounts receivable. Our analysis of Jacksonville's records showed that the balance should have been about $24,000. Thus, OSHA's reporting system overstated Jacksonville's accounts receivable balance by about $39,000 as of September 30, 1984.

The accounts receivable balance maintained in OSHA's headquarters computerized information system for the Jacksonville office was not updated or validated before implementing the new system. As a result, items that should have been deleted or adjusted before implementation remained uncorrected. The OSHA national office did not require accounts receivable updates before implementation of the new system. An official at the Jacksonville area office said that OSHA requested an update of the area office records on December 26, 1984, shortly after we asked OSHA's national office for accounts receivable reports.

Interim reporting procedures should be considered

The Jacksonville office prepares a case control card for each inspection made. The card contains information on penalty assessed, type of violation, and time allowed for abatement. The card file was manually maintained and was generally considered accurate. We noted that the card file was not used to aggregate receivables due. Accordingly, the office did not periodically determine its total accounts receivable based on its own records or report this information to the national office.

We believe that since current software problems exist in the new system and it is not expected to be fully implemented soon, interim measures should be established to improve the reporting of receivables. For example, we did not attempt to determine the reliability of the records in all the area offices. However, we believe that if these records (based on source documents) are considered accurate, the area offices could periodically aggregate and report their total receivable balances to the national office. The national office could, in turn, use these data to report the total accounts receivable to the Treasury, rather than continue to report estimates.

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We believe that without central control of agency financial management improvement projects, the Department cannot adequately monitor these projects to ensure that

--agency project management is adequate,

--systems are not duplicated,

--systems are compatible with the Department's Integrated Accounting System and other systems, and

--systems adhere to the Comptroller General's principles, standards, and related requirements.

Recommendations to the Secretary of Labor

We recommend that the Secretary hold agency heads and the Department's Comptroller accountable for carrying out departmental policies governing the approval of financial management improvement projects to ensure effective departmental control over them.

We also recommend that the Secretary direct the Assistant Secretary for Occupational Safety and Health to ensure that accounts receivable from penalties are adequately controlled and accounted for by requiring that

--area office receivables are validated and updated when implementing the new Penalty Accountability System,

--software problems in the new system are resolved to enable processing of penalty adjustments, and

--interim measures are established to improve the reporting of receivables until the new system is working properly and implemented at all area offices.

Agency comments and our evaluation

Labor agreed with our recommendations to improve control over financial management improvement projects. The Comptroller submitted a directive to the Secretary which provides for the development of financial management system plans by each component agency and a process for review of system improvement projects.

Labor fully agreed with our recommendation for better controlling OSHA's accounts receivable for penalties, and implemented our recommended changes.

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ENHANCE FIA ACCOUNTING SYSTEM REVIEW EFFORT

The Department needs to do more to ensure that its accounting systems conform with the Comptroller General's accounting principles, standards, and related requirements. Although Labor's second-year accounting system review effort included guidance to agencies and an inventory of accounting systems, action was started late in the year. Consequently, there was no opportunity for managers to conduct compliance testing of their accounting systems. In addition, there was no departmental monitoring of the adequacy of the system reviews.

In its Federal Managers' Financial Integrity Act letter to the President dated December 27, 1984, the Department stated that its accounting systems, taken as a whole, generally conform to the requirements of the Comptroller General, but that some cases of nonconformance were disclosed. We believe that the Department needs to evaluate the adequacy of systems reviews and that without system conformance testing, the Department is not yet in a position to adequately assess whether its systems conform with the Comptroller General's accounting principles, standards, and related requirements.

Second-year effort started late

On September 26, 1984, the Assistant Secretary for Administration and Management issued final agency guidelines for section 4 financial systems reviews. All agencies were requested to submit their system conformance assurance letters to the Under Secretary of Labor by November 19, 1984, prior to consolidation into the Department's annual FIA report. Because of the late start, there was little time in a 6-week time frame to accomplish meaningful system reviews. In addition, there was no Department-level monitoring of the nature, extent, or quality of the agency reviews. The Director of the Office of Financial Policy and Systems advised us that many other priority work assignments limited the time his office devoted to accounting system reviews.

Conformance testing was not part of agency system reviews

We recognize that the Office of Inspector General audits and tests selected financial operations during the year. However, there was no opportunity for system managers to conduct systematic testing of their accounting systems because of the late start of the FIA accounting system reviews.

To determine whether a financial system conforms to the principles, standards, and related requirements prescribed by the

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Comptroller General, it is necessary to review and test the system in operation. Although agency personnel may have extensive system knowledge, systems may operate differently than they believe. Therefore, testing should be done on critical aspects of the system and may include

--interviewing persons who operate the system,

--observing operating procedures,

--examining system documentation,

--applying procedures to live transactions and comparing results,

--direct testing of computer-based systems by use of simulated transactions, and

--reviewing error reports and evaluating error follow-up procedures.

Tests should be designed to disclose whether valid transactions are processed properly and whether the system rejects invalid transactions. The tests should cover the entire transaction, from initial authorization through processing, posting to the accounts, and reporting. Accordingly, manual as well as automated operations should be included. In developing test plans, the results of any prior system testing should be considered.

These testing criteria have been adopted by OMB and included in Appendix H of its publication, Guidelines for Evaluating Financial Management/Accounting Systems (May 20, 1985). In determining the tests that would be appropriate for any system, it is important to keep in mind that in most cases, using transaction testing as the key, more than one of the above techniques are needed to test all important aspects of an accounting system.

In our report entitled First-Year Implementation of the Federal Managers' Financial Integrity Act in the Department of Labor (GAO/HRD-84-45, May 3, 1984), we indicated that we believe that systems need to be tested to determine if manual and automated procedures, processes, and controls are operating as intended. We also pointed out that we believe that a structured approach to evaluations, which includes inventorying and testing systems, is essential to providing reasonable assurance that all system variances are identified.

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Recommendations to the Secretary of Labor

We recommend that the Secretary, in order to adequately assess whether the Department's accounting systems conform with the Comptroller General's principles, standards, and related requirements, direct the Assistant Secretary for Administration and Management to provide for

--departmental monitoring of agency system review efforts and

--conformance testing as part of agency accounting system reviews.

Agency comments and our evaluation

Labor agreed with our recommendation to improve monitoring of the Department's accounting systems to ensure that they conform to the Comptroller General's principles, standards, and related requirements. To accomplish this, the Office of Comptroller established system review criteria, formulated a review schedule and, using intra-departmental review teams, is conducting system reviews. The Department's plans call for the review of all accounting and related ancillary systems over a 3-year period.

IMPROVE ACCOUNTING FOR PERSONAL PROPERTY

The Department's Property Management System, implemented in 1970, needs to be improved to ensure that the property inventory is accurately reported on the Department's financial statements and that property is adequately controlled. Major enhancements under development are expected to resolve certain deficiencies. The deficiencies already identified by the Department and others noted during our review need to be corrected, and the improvements incorporated in the enhanced system. Deficiencies in recording, reconciling, reporting, and inventorying property are discussed below.

Property records not reconciled

In the Federal Managers' Financial Integrity Act Report submitted to the President on December 19, 1983, the Department identified that the property management system's financial reconciliation with the accounting system needed improvement. We noted that current fiscal year acquisitions of capitalized property recorded on the property and IAS records were not reconciled. In addition, the IAS general ledger did not reflect

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property balances until fiscal year-end. The Department's Policy and Procedure Handbook for Personal Property provides that system property accounting records shall be reconciled with IAS records.

We also noted that the property system's equipment acquisition records were not reconciled to the equipment purchases made by the Office of Procurement. Labor's procedures provide that all property acquired through purchase shall be reconciled quarterly with the Procurement Control and Accountability System (now called the Automated Purchase and Payment System).

Equipment inventory reported incorrectly to the Treasury

The capitalized equipment inventory amount reported to the Treasury on the Statement of Financial Condition (SF 220) as of September 30, 1983, was incorrect. The total of $225.8 million reported was overstated by $35.3 million in regard to the ETA's Contract Property Management System, and the amount reported for the Working Capital Fund was also incorrectly reported. The errors were due generally to ineffective reporting procedures. Details were provided to the Department.

Acquisitions not always recorded

The Department's Office of Procurement did not always provide copies of contracts, amendments, and purchase orders to the property system for recording property acquisitions. Therefore, the system equipment inventory may not include all equipment acquisitions and may be understated. For example, a $6.4 million contract for the acquisition of ADP hardware, software, supplies, services, and maintenance was issued with over two dozen modifications. According to an OASAM property management official, none of the equipment was recorded in Labor's Property Management System since the beginning of the contract, thereby understating the inventory.

Physical inventory procedures need improving

Separation of duties is needed in the physical inventory process at the regional/field office level. The Accountable Property Officer is responsible for conducting and certifying the physical inventory of all accountable property and reconciling and adjusting system inventory records to the actual physical inventory. However, this person acts as a property custodian in addition to the above function. We believe that property control is weakened when the Accountable Property Officer performs these duties while acting as the custodian. The

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Property Management Officer has the responsibility for reviewing the certification and the reconciliation, preparing corrections for input into the Property Management System, and monitoring the recordkeeping of the property offices. GAO title 2, appendix II, delineates responsibility for appropriate separation of duties.

We were advised that certain corrective actions on reconciling records and improving the recording of acquisitions are planned for fiscal years 1985 and 1986.

Recommendations to the Secretary of Labor

We recommend that the Secretary direct the Assistant Secretary for Administration and Management to ensure that:

--Planned system enhancements include provisions for prompt recording, reconciling, and correctly reporting capitalized property.

--The Office of Supply and Property Management provide for adequate separation of duties in the physical inventory process.

Agency comments and our evaluation

Labor agreed with our recommendations and has undertaken changes. The Department expects to complete corrective actions on reconciling records and improving the recording and reporting of acquisitions by the end of the first quarter of fiscal year 1986. Longer term plans for improving the property system will be outlined in Labor's financial management system planning submission to the OMB in September of this year. Corrective actions will also be taken in fiscal year 1986 to provide adequate separation of duties in the physical inventory process.

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APPENDIX I

U.S. DEPARTMENT OF LABOR

SECRETARY OF LABOR
WASHINGTON, D.C.

September 26, 1985

Mr. Charles A. Bowsher
Comptroller General
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Bowsher:

Thank you for the opportunity to comment on the draft report on management of the Department of Labor (DOL) which your staff transmitted to us on August 16, 1985. We appreciate the time and work that went into this study over the past year. It is particularly useful to have the report at this time as I start my work here at the Department. I am personally committed to improving the management of this agency, and I welcome your constructive suggestions.

We realize that by its nature a management review of this type necessarily focuses on problem situations. We particularly appreciate, therefore, the recognition that your staff gave to numerous major accomplishments within DOL. Some of the more notable of these accomplishments include: the expeditious and competent implementation of the Job Training Partnership Act (JTPA); the reorientation of numerous enforcement programs to a more cooperative approach with business, industry, labor, and state and local government; the initiation of long-range planning for the pension, benefits, and information resources management activities; increased use of competition and other procurement improvements; reorganizations, such as in the Pension and Welfare Benefit Program (PWBP) to improve resource allocation, and in the information resources management (IRM) functions to provide for greater departmental oversight; and a number of enhancements to workforce planning and management.

Several of the key recommendations in the report potentially involve significant budgetary increases. These include enhancement of the PWBP and mine safety enforcement programs, and expansion or modernization of the procurement and accounting systems. As we consider these in the context of the Fiscal Year 1987 budget process, we are conscious of both the need for improvement and the need to exercise fiscal restraint. In the systems area, particularly, we will carefully weigh both the costs and the benefits of every significant proposal.

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The task forces I established following the briefing you gave me on your preliminary findings have continued to work actively over the past two months. They have identified a number of technical or factual issues which we have raised directly with your staff. We would expect these points to be addressed in your final report.

In general, however, you will find that we agree with the overall thrust of the report on the need to strengthen leadership and improve management. We also agree with almost all of the major recommendations. As frequently noted in the report, we have already made a number of improvements, but we certainly agree that additional improvement can and should be made in the Department's management. The following comments highlight for the record our initiatives and concerns.

Issue: Strengthen Secretarial Direction; Avoid Crises and Credibility Problems Through Better Control

The Department recognizes the need to articulate the long-term goals of the Secretary, to develop a system to more formally direct greater attention to these priorities, and to monitor progress toward their accomplishment. There will be developed, therefore, a set of goals which will describe for DOL employees our long-term Departmental goals. This will be an important element of the management system that will be adopted, and it will significantly strengthen Secretarial direction.

The Department has already initiated a review of Secretarial management systems of other Federal agencies. Upon completion, recommendations will be made and a decision reached on the means of best effecting a system of initiating, integrating, tracking and managing Secretarial initiatives and goals, and insuring accountability for these goals. Also, as noted in the report, there is a need for an official above the Assistant Secretary level to perform day-to-day management tasks on my behalf. The Under Secretary of Labor will be given this role. He will be specifically designated as the official responsible for overseeing essential management systems, ensuring a quality work force and accountability, and monitoring and using performance data.

Issue: ERISA Enforcement Needs Sustained Top Level Attention

Considerable progress has recently been made in this area. The current reorganization has provided for closer National Office control over the field, greater program direction, and the

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elimination of unnecessary levels of review. With the new structure in place, greater attention is being devoted to long range planning. In areas such as training, automated case management systems, and redesign of the data input forms themselves, high level committees have been formed to address these problems. The reports of these committees will provide the basis for future corrective actions. New computer targeting runs are being developed to identify those pension plans with the greatest potential for abuse. Preliminary research and development work on a system of electronic filing is proceeding pending a final decision on full implementation of this proposal which would provide instantly retrievable data to the Department.

Issue: Expedite Rulemaking Process

Prior to issuance of this GAO report, the Assistant Secretary for Policy was instructed to examine the rulemaking process to see if the lengthy time frames could be shortened. He is establishing a task force to study the problems involved in issuing regulations, particularly in the health and safety areas. The task force would address, and report on early in 1986, both immediate kinds of actions that could ameliorate the situation, such as quality and quantity of staff, level of outside research, determination of priorities, responsiveness to OMB requirements, levels of review, etc., and longer-term changes, such as basic changes in the regulatory, administrative and legislative approaches.

It must also be recognized that the Department's regulations are central to its ability to implement the numerous statutes for which it is responsible. Further, the regulatory process is necessarily a long and complex one. Extensive work must be done internally to develop proposed and final rules, carry out economic and policy studies, etc. All regulatory actions are subject to the requirements of various implementing statutes, the Administrative Procedures Act, Executive Order 12291, the Regulatory Flexibility Act, the Paperwork Reduction Act and other requirements. New regulations must go through an extensive period of public comment and review. In short, while DOL may be able to expedite the process to a certain extent, it will necessarily remain a long one. It is also too important to the Department's mission to consider any arbitrary shortcuts.

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Issue: Comprehensive Effort Needed to Enhance the Procurement System

The need to strengthen the qualifications of the procurement staff is clearly recognized. To this end, two major thrusts are underway: (1) a long-term training strategy involving analysis of skill levels, identification of available courses, and development of a procurement training module; and (2) efforts to resolve classification issues that impact on procurement grade levels by recognition of the responsibility, independent judgment and complexity of regulations dealt with.

Recent data shows that our ongoing emphasis on competition has been effective, as fully 85 percent of the Department's contract actions during the first half of FY 1985 were competitive. DOL had the second highest competitive level of any Cabinet agency. The commitment to "full and open competition" continues, with responsibility focused on the program agencies and the Procurement Review Board. Steps have been taken to improve the Annual Advance Procurement Plan process to allow for early identification of multiple contracting sources and multi-year commitments. Instructions will be issued shortly to contracting officers on the need to expand use of presolicitation notices. There will be continued efforts to standardize and clarify policy in areas such as closeout, audit, letter of credit, and indirect costs. Finally, the development of a fully automated contracts system is a long-term goal of the Department; we are committed over time to complete this enhancement, ultimately linking procurement and finance as was done in the small purchase system.

Issue: Information Resources Management

DOL is moving forward on a variety of fronts in this highly complex area. A major reorganization in the Office of the Assistant Secretary for Administration and Management has merged the information technology and information management functions into a single directorate, with reallocation of some existing resources from operations to IRM policy. The Department's overall IRM strategy has been reexamined and revised by establishing a new decision-making process to strengthen management of information resources and use of information technology. The IRM planning process has been improved, with a focus on user needs; the necessity, cost and mechanisms for collecting information; the technical environment; and cost-benefit analyses.

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A study of the Department's telecommunications traffic and requirements is underway. A review of administrative data systems has been initiated. Steps are being taken to improve the accuracy and completeness of the systems and hardware inventories. An improved acquisition review process is being implemented consistent with the new IRM strategy. Finally, additional improvements are being planned, including ways to increase the level of technical expertise and to develop a method for sharing ADP technical expertise across agency lines.

Issue: MSHA Inspection Shortfall

In general the Department concurs with the GAO recommendations for the Mine Safety and Health Administration (MSHA), but has some concern about the statistics presented and the overly narrow focus of the report. As has been pointed out to GAO, overly rigid compliance with the Mine Act's inspection requirement could adversely affect miner safety and health by curtailing key programs that have been proven effective. In addition to regular inspections, many other activities mandated by the Mine Act are conducted, including: accident investigations, training plan approvals, hazard complaint inspections and investigations, knowing and willful violation investigations, discrimination complaint investigations, onsite audits to verify records and compliance with reporting requirements, and investigation of petitions for modification of safety standards. MSHA also conducts follow-up inspections to ensure timely abatement of violations cited during the regular inspections. In conformance with the Act, MSHA has implemented special emphasis programs of compliance assistance and promotion of safety consciousness and practices for the metal and nonmetal mining industry.

With specific reference to the recommendations, MSHA is updating its information system to reflect a more accurate mine count. More emphasis is being placed on completing mandatory inspections. A study of alternatives to improve productivity will be undertaken, including the metal and nonmetal field organization structure, the feasibility for further reduction in paperwork, and means to reduce the number of attempted surface inspections. A study to determine staffing imbalances in relation to workload has been completed, and staff will be reallocated over the next two years on a gradual and prudent basis, as the budget permits.

Issue: JTPA Oversight

The Department carries on oversight through three separate initiatives: (1) reviews of State administration of the JTPA program; (2) oversight of recipients' financial and compliance

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audits; and (3) nationwide economy, efficiency and effectiveness reviews by the Inspector General. As problems are identified appropriate corrective action is initiated. The Employment and Training Administration (ETA) is now considering requiring more concentration on certain key functional areas such as State monitoring and eligibility as well as the quality of the State systems, especially with respect to the functioning of those systems at the service delivery areas level.

Through all of this activity, the Department believes that the intention and purpose of the Federal Managers Financial Integrity Act (FMFIA) are being effectively accomplished. Vulnerability assessments as such are conducted of Federal activities, as mandated by the law and by the Office of Management and Budget (OMB) regulations. Monitoring and oversight activities related to State activities address possible abuses at that level. We are working with OMB and the States to resolve concerns about audit coverage and timing. While improvements can always be made, we are presently confident that the current level of oversight is adequate to provide reasonable assurance that control objectives are being met.

Issue: UI Oversight

As with JTPA, elements of a comprehensive program of oversight of the Unemployment Insurance program are currently in place and functioning effectively. Each year States submit action plans for Federal review; such plans include descriptions of corrective action plans in response to analyses of performance compared to measures of achievement. There are random audits, a quality control program, monitoring of accounting and cash management, quality appraisals, benefit payment controls, and workload validation. Financial and compliance audits, as well as expanded scope audits, are conducted by the Inspector General.

Accordingly, the Department again believes that it is accomplishing the purposes of the FMFIA and providing reasonable assurance that fraud, waste and abuse are controlled.

Issue: Audits, Reviews and Evaluations

The Office of the Inspector General (OIG) concurs in the GAO conclusion that the perception of the usefulness of the audits is one of the keys to a successful audit program. To this end, OIG has taken action to work with mid-level and top-level agency managers aimed at improving management's perception of the

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APPENDIX I

usefulness of audits in identifying and implementing corrective actions through: (1) more directly involving program managers in the audit process; and (2) participating in agency workgroups formed to develop corrective action plans to bring about recommended improvements.

Issue: Enhance Department Workforce Quality and Efficiency

I agree that the quality and efficiency of the DOL workforce is a major concern. We are initiating numerous improvement efforts. In most cases these relate to assuring better conformance of existing personnel management policies and procedures, including those related to reductions-in-force (RIF). Agency managers will be assisted in assuring the accuracy and currency of position descriptions, in identifying any special qualifications requirements, and assuring that training following a RIF assignment more fully mitigates the dislocations occasioned by RIF.

In other areas, DOL will assure that managers support continued training on setting performance standards, and that prototype standards are tailored to specific jobs. The new automated personnel system (PERMIS) will be used to evaluate the performance measurement systems to correct problems. Negotiations will be undertaken with the Office of Personnel Management and with Local 12 regarding ways to streamline recruitment and merit staffing procedures. Workforce planning will be given additional emphasis, with greater use of workforce analyses and projections on a timely basis.

DOL managers will be encouraged to support the supervisory training and management development policies and programs. On a regular and recurring basis, information will be provided to managers on: (1) the needs of the clients of the supervisory training and management development programs and (2) the effectiveness of the program based on improved follow-up evaluations. Measures of productivity, operational efficiency, customer service, and programmatic results will be included in appropriate managerial performance standards and will be tracked when appropriate in our secretarial management system.

Issue: Operate in a More Business-Like Manner

The Department generally concurs in the GAO findings and feels that the recommended corrective actions are warranted. In fact, most of those findings have been previously reported to the

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President and the Congress in the Department's year-end report required under Section 4 of the FMFIA. We are, however, concerned that some of the conclusions reached are not fully supported by the limited scope of the findings. The review did not cover the full range of financial management activities throughout the Department. It is also important to note that GAO found no statutory violations of the Anti-Deficiency Act.

To address the problem areas, instructions will be issued requiring closer adherence to existing procedures concerning fund control, unliquidated obligations and related accounting practices. Heavy emphasis is being given to initiating a comprehensive review of all financial management systems and coordinating the development of new systems on a departmentwide basis. Plans for modernizing the Integrated Accounting System are being developed and will be implemented as resources permit.

The Occupational Safety and Health Administration has completed the changes recommended by the GAO in the implementation of its Penalty Accountability System.

Conclusions. Once again, we appreciate the extensive work done by the GAO staff. We hope that these comments and the technical notes provided to your staff will be useful to you as you finalize the report.

Very truly yours,

WILLIAM E. BROCK

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